S. HRG. 101-616

NOMINATIONS OF ARTHUR J. HILL, PHILIP R. LOCHNER, JR., AND JOHN J. ADAIR

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

ON

THE NOMINATIONS OF

ARTHUR J. HILL, OF FLORIDA, TO BE PRESIDENT OF THE GOVERNMENT NATIONAL MORTGAGE ASSOCIATION, VICE MARK E. BUCHMAN, RESIGNED

AND

PHILIP R. LOCHNER, JR., OF CONNECTICUT, TO BE A MEMBER OF THE SECURITIES AND EXCHANGE COMMISSION FOR THE REMAINDER OF THE TERM EXPIRING JUNE 5, 1991, VICE DAVID S. RUDER, RESIGNED

AND

JOHN J. ADAIR, OF VIRGINIA, TO BE INSPECTOR GENERAL OF THE RESOLUTION TRUST CORPORATION [NEW POSITION]

FEBRUARY 23, 1990

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

U.S. GOVERNMENT PRINTING OFFICE

28-958 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S241-34

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

DONALD W. RIEGLE, JR., Michigan, *Chairman*

ALAN CRANSTON, California
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee
TERRY SANFORD, North Carolina
RICHARD C. SHELBY, Alabama
BOB GRAHAM, Florida
TIMOTHY E. WIRTH, Colorado
JOHN F. KERRY, Massachusetts
RICHARD H. BRYAN, Nevada

JAKE GARN, Utah
JOHN HEINZ, Pennsylvania
ALFONSE M. D'AMATO, New York
PHIL GRAMM, Texas
CHRISTOPHER S. BOND, Missouri
CONNIE MACK, Florida
WILLIAM V. ROTH, JR., Delaware
NANCY LANDON KASSEBAUM, Kansas
LARRY PRESSLER, South Dakota

KEVIN C. GOTTLIEB, *Staff Director*
LAMAR SMITH, *Republican Staff Director and Economist*

CONTENTS

FRIDAY, FEBRUARY 23, 1990

	Page
Opening statement of Chairman Riegle	1
Opening Statements of:	
Senator Graham	1
Senator Dixon	3
Senator D'Amato	16
Prepared statement	17
Senator Lieberman	18

NOMINEES

Arthur J. Hill, of Florida, to be President of the Government National Mortgage Association, vice Mark E. Buchman, resigned	4
Prepared statement	6
Biographical sketch	39
Philip R. Lochner, Jr., of Connecticut, to be a Member of the Securities and Exchange Commission for the remainder of the term expiring June 5, 1991, vice David S. Ruder, resigned	19
Biographical sketch	48
Response to written questions of:	
Senator Riegle	69
Senator Dodd	70
Senator Heinz	74
John J. Adair, of Virginia, to be Inspector General of the Resolution Trust Corporation [new position]	31
Biographical sketch	62
Response to written questions of Senator Riegle	75

HEARING ON NOMINATIONS

FRIDAY, FEBRUARY 23, 1990

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The committee met at 10 a.m., in room SD-538, Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the committee) presiding.

Present: Senators Riegle, Graham, and D'Amato

OPENING STATEMENT OF CHAIRMAN RIEGLE

The CHAIRMAN. The committee will come to order.

This morning the committee is meeting to consider the nominations of three individuals and we will take them in the order in which they were received by the committee.

We will be starting with Mr. Arthur Hill, who has been nominated to be President of Government National Mortgage Association. Then we will take up Mr. Philip Lochner, who has been nominated to be a Commissioner on the Securities and Exchange Commission. Then finally Mr. John Adair, who has been nominated to be the inspector general of the Resolution Trust Corporation.

I want to indicate that in the instance of those three nominations which we are handling today and in addition the nominations pending of Mr. Frank Solarz of Ohio to the board of Directors of the National Consumer Cooperative Bank, and also Carol Myer Marshall to be Superintendent of the mint, are nominations, together with the three we are handling today, I intend to report out of the committee March 2, the date that we will be having our hearing on the fall of Drexel Burnham Lambert with SEC Chairman Breeden. So just for scheduling purposes everyone can be aware of the fact and on notice that that is my intention.

This morning we are going to turn first to the nomination of Arthur Hill. Mr. Hill, I want to welcome you before the committee and congratulate you on your nomination. You are accompanied by a very distinguished member of this committee, Senator Graham of Florida, who strongly supports your nomination. So at this time, Senator Graham, we would be pleased to hear from you.

OPENING STATEMENT OF SENATOR GRAHAM

Senator GRAHAM. Thank you very much, Mr. Chairman.

The citizens of our State are honored that the President and Secretary Kemp have chosen Arthur Hill to serve as President of the Government National Mortgage Association and we urge this panel to give his nomination swift and favorable approval.

Arthur has superb qualifications for this position. His banking career began in Miami in 1975 as assistant vice president of Southeast Bank, one of the large regional banks in our State, where he restructured and developed the money market department.

Four years later he became vice president of Southeast Bank's corporate lending division.

In 1983, he joined Amerifirst, a Federal savings and loan in Miami, one of the large thrift institutions in our State, as a vice president and regional manager for corporate lending.

The experience that he gained at Southeast and Amerifirst was put to the test in 1984 when he became president of a troubled bank in the distressed area of Miami known as Liberty City. Peoples National Bank of Commerce was under a cease and desist order when Arthur took over. Others might have passed up the "opportunity" to take the helm at Peoples. Not Art. He had the experience, wherewithal and above all, the commitment to the community necessary to accomplish a very difficult assignment.

In 3 short years he steered the bank through a total recapitalization, puts its financial house in order, restored its profitability, and renewed its commitment to economic development in the black community of Miami.

Equally as impressive as his banking credentials is Art Hill's commitment to the Miami community and the State of Florida. Locally he was the founding member of Business Against Drugs, a group established to combat drugs in the workplace. He has served on the Orange Bowl Committee, the board of governors of the Miami Chamber of Commerce, and the board of directors of the United Way of Dade County.

Statewide, Art has served as a board member of the Collins Center for Public Policy, an organization which is now directed by our former colleague, Lawton Chiles. He was vice chairman of the Florida Transportation Committee and a guest lecturer at Florida A&M University.

I am pleased to have played a small role in his distinguished career when, as Governor, I appointed Art to be vice chairman of the Florida Black Business Investment Board.

Art has a long list of honors which includes Who's Who Among Black Americans, Who's Who in Finance and Industry, Who's Who in the South and Southwest, and his selection in 1983 as the Outstanding Young Man of America.

Mr. Chairman, I believe that Arthur Hill is the right man for the job at the right time. He brings to HUD and GNMA a reputation of competence and unquestioned integrity. Above all, he is a dedicated professional who will continue at the Federal level his strong commitment to civic duty.

On a personal note, Mr. Chairman, I would like to thank Art for his assistance that he has provided to Senator Mack and myself in conducting our Moderate Rehabilitation inquiry. He has been a great asset to our staff as an informal liaison at HUD. He has vouched for us there and today it is my pleasure to vouch for him here. Thank you.

The CHAIRMAN. Thank you very much, Senator Graham. That's a very impressive list of accomplishments and your strong feeling

and endorsement carries great weight in this committee and in the Senate generally and I think reflects great credit on this nominee.

So let me thank you for that and you're certainly welcome to join the panel or if you have another commitment feel free to leave at this time if that's necessary.

Let me make some other initial comments related to this nomination.

GNMA is perhaps best known for its mortgage-backed securities program which increases the availabiiity of mortgage credit for federally insured mortgages by attracting new sources of funds for the mortgage market. Through this process GNMA's mortgage-backed securities serve to increase the availability for credit for housing in all areas of the country and to assure that such credit is available at reasonable interest rates. The net effect is greater home ownership opportunities for a broad range of American families.

Given the alarming trends we have seen in our Nation's homeownership rate during the last few years, the role of GNMA in fostering homeownership is more critical than ever. Yet we must remain mindful of GNMA's fiscal stability as it seeks to fulfill its mission of fostering the American dream of homeownership.

If confirmed, Mr. Hill will bring a strong financial background to GNMA, having served as an executive in the financial services industry in a distinguished way for the last 15 years. Clearly, there is much work to be done and so we look forward to hearing your testimony this morning.

Let me now ask you to stand and take the oath that all nominees are required to take.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. Let me again say that we are pleased to have you today. Do you have any members of your family or others with you today that you would like to introduce to us?

Mr. HILL. Not today, Senator. But members of my staff are here. My assistant, Miss Kimberly Neideffer, Tony Mitchell from HUD, and Mr. George Anderson of GNMA and his wife, Lillian.

The CHAIRMAN. Very good. In any event, let us hear now any opening comments you might wish to make and then we will go from there. Before we begin I have a statement from Senator Dixon.

STATEMENT OF SENATOR DIXON

Mr. Chairman, given the hearing's consideration of Philip Lochner, Jr., to be a member of the Securities and Exchange Commission, I would like to take this opportunity to express a few thoughts about an issue of great interest to Illinois and the efficiency of the financial markets: the jurisdiction between the CFTC and the SEC.

Recently, the debate over jurisdiction between the SEC and the CFTC has resurfaced. I have heard talk of a proposed amendment to the CFTC reauthorization bill to transfer jurisdiction of index futures of the SEC. I am opposed to such an amendment. We should not take such a major shift in authority lightly. The Chicago Futures Exchanges have been leaders in innovating new products such as stock index futures and have prospered under self-regula-

tion. With respect to stock index futures, the Chicago Mercantile Exchange's S&P 500 index and the Chicago Board of Trade's major market index clearly dominate trading in this area, accounting for more than 70 percent of trading volume. The CFTC has developed substantial expertise in stock index futures and has done a good job of monitoring them.

Although I agree that greater coordination is needed between the CFTC and the SEC in regulating products which cut across traditional market divisions, I continue to believe that there is no need for legislative changes in this area. The two regulatory bodies have the capability and the expertise to reach an agreement among themselves without unwarranted Congressional interference. Additional regulation or significant shifts in authority may hamper the efficiency of the U.S. futures market and make it less competitive with growing foreign markets in this area.

I commend Mr. Lochner's impressive academic credentials and his substantial legal experience in the securities area. I look forward to his comments on the jurisdictional issue that I have raised and hope that he shares my views on the need for greater cooperation, not regulation.

STATEMENT OF ARTHUR JAMES HILL, NOMINATED TO BE PRESIDENT OF GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

Mr. HILL. Thank you, Mr. Chairman, and with your permission I would like to thank Senator Graham for that kind introduction. We've been friends for a long time and, Senator, I really appreciate you coming to make those kind remarks for me here this morning before the panel.

I have submitted my testimony, Chairman Riegle, for the minutes and I just have a few comments.

The CHAIRMAN. We will make your statement a part of the record.

Mr. HILL. I am obviously honored to be here before your committee this morning to serve as the nominee for the President of Government National Mortgage Association as suggested by President Bush. I am truly honored that he saw fit to nominate me to this position of trust and responsibility and also an opportunity to serve the public as well.

I am also grateful to Secretary Jack Kemp for supporting my nomination and also encouraging me to join his team at HUD. Obviously, there is a lot to be done there and Secretary Kemp has certainly gone way beyond the call of duty to try to turn HUD around and implement financial controls and stability at HUD. I am encouraged by his efforts and the team that he has there and certainly would be delighted to join Mr. Kemp's team as President of GNMA if the committee chooses.

Mr. Chairman, as you have pointed out, GNMA has played an extremely well thought out and programmed role in providing stability in the secondary mortgage market by making sure that capital is attracted to financing housing through the FHA and VA insurance and guarantee programs. Over the past 20 years GNMA has performed extremely well with more than 95 percent of all the mortgages insured by FHA and VA being securitized through the

GNMA process, allowing for over 11 million homes to be financed in the market over the years. We certainly want to make sure that that continues and I pledge my support and commitment to the Secretary and to the administration and look forward to working with your committee in the coming months and years to make sure that GNMA continues to be a viable and healthy program.

Mr. Chairman, those are brief remarks that I have before you this morning and if you have questions I would be happy to entertain them.

[The complete prepared statement of Arthur J. Hill follows:]

STATEMENT OF ARTHUR J. HILL

PRESIDENT (DESIGNATE)
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION

BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

FEBRUARY 23, 1990

Chairman Riegle, Senator Garn, and members of the Committee. It is an honor to appear before you today as President Bush's nominee to serve as the President of the Government National Mortgage Association at the Department of Housing and Urban Development.

I am honored that the President has seen fit to nominate me to this position of trust and responsibility, and I deeply appreciate the opportunity for public service.

I am also grateful for the confidence expressed in me by HUD Secretary Jack Kemp. Secretary Kemp and President Bush have established an exciting agenda at HUD for recapturing the American dream of homeownership, and promoting economic growth and opportunity for all. I look forward to working with him to achieve the goals he and the President have set for the Department and I am excited at the prospect of working with the team the Secretary has assembled.

The President of GNMA is responsible for the direction and management of all the operations of GNMA, a wholly-owned government corporation within HUD that is recognized as the patriarch of the secondary mortgage market. GNMA set the stage for the development of Mortgage Backed Securities (MBS) programs

for both government and conventional mortgages by providing an efficient government-guaranteed secondary market vehicle to link the capital and federal housing markets. Over 95% of all FHA and VA mortgages are securitized through GNMA. The primary beneficiaries of this secondary market are first-time homebuyers. To date, more than 11 million FHA and VA homes have been financed through GNMA securities.

Secretary Kemp has proposed numerous reforms over the past several months designed to enhance the internal controls and monitoring of all HUD programs. The HUD Reform Act, passed by the Congress on November 21, 1989, and signed by the President on December 15, 1989, includes provisions that will improve the financial management of the Department and ensure the continuing viability of those programs, including GNMA, that are targeted towards expanding affordable housing and homeownership opportunities. With over $.70 billion in securities outstanding, it is essential that we maintain the financial integrity of GNMA so that it may continue in its support of the FHA and VA home loan programs. I consider that this will be my primary responsibility as President of GNMA.

Mister Chairman, Secretary Kemp fervently believes that in addition to reform we must look ever forward for new, innovative ideas to help us achieve the Department's stated objectives. My professional background in investment and commercial banking, as

well as my understanding of the secondary mortgage market, places me in an ideal position to guide GNMA through a successful period of reform, innovation and responsiveness. That experience will also allow me to contribute significantly to assisting the Secretary in meeting his responsibilities under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) as a member of the Oversight Board of the Resolution Trust Corporation (RTC) and the Federal Housing Finance Board (FHFB).

GNMA's basic mission is to provide an efficient secondary market vehicle to assist the FHA and the VA in putting homeownership within the reach of as many Americans as possible. I pledge to you that I will do all I can to ensure that GNMA is operated in a prudent, businesslike manner so that it may continue successfully in its support of that mission.

In that spirit I offer myself to you as the President's nominee to be the President of the Government National Mortgage Association.

The CHAIRMAN. Very good. I do have some questions that I want to go over with you.

First of all, as you envision assuming this position I'd like you to indicate what you have in mind as your top priorities. You've had a chance to size this thing up. Let's just start in that area. What, for example, might be the top three things on your list?

Mr. HILL. Well, as you know, over the last couple years the Southwest economy has really gone into a nosedive and has affected the nation in general with regard to the energy and the housing markets, there with housing products being in dire straits.

Upon looking at the numbers at GNMA and trying to assess what are the real risks that are associated with GNMA today, I looked that over. A little over a year ago there were defaults in the GNMA portfolio of approximately $500 million. Today as we sit here it's more than $14 billion. That really relates to a couple of things.

One is the softness in the economy in the Southwest—Texas, Colorado, and Louisiana and those energy-related States. And also, a little bit of the coinsurance program too has affected the default rate in the GNMA portfolio.

So what we are attempting to do and what I really would like to do immediately upon confirmation in GNMA is to move in and try to insulate and reduce those defaulted portfolios and reduce the risk to GNMA.

Right now what we generally do when there's a defaulted portfolio is try to put it in a healthy disposition. That is, to reduce the delinquency rate, reduce the foreclosure rates, and make sure that the mortgages in the portfolio are brought current and try to sell it out and get the Government out of that market because that's not our function at all.

So in terms of what is immediate and primary, I would say trying to reduce and anticipate losses as it relates to the defaulted loan portfolios, stemming from the Southwest economy and also from the coinsurance program as well.

There are two other items that I would suggest to you, Senator. One deals with internal controls and reorganization of GNMA. HUD itself, as you know, is currently implementing reforms and controls as passed by the HUD Reform Act late last year. What I want to do is to apply that to GNMA.

Right now we don't have a vice president of finance and that's one of the things I think is important to maintain the financial integrity of GNMA, given that we have $370 billion in securities outstanding, and you've got to have some proper management and internal controls with regard to maintaining the financial integrity of GNMA.

The third item that I would suggest to you as an area that I would really like to concentrate on is trying to look toward the future. What can GNMA do to invigorate its presence in the market today? As you know, the market has changed drastically over the last 20 years and GNMA, for the most part, has been good at what it does, but we need to catch up with the times. So to invigorate it, to be a little bit more innovative. I think we need to study that and see how we can utilize GNMA a lot more effectively.

So those are the three areas that I would immediately concentrate on, Senator.

The CHAIRMAN. Now when you say that defaults have gone from, if I heard the numbers correctly, $600 million to $14 billion in a matter of months——

Mr. HILL. Yes, in a matter of a year.

The CHAIRMAN. In a matter of 12 months. Where are we heading? Are we going to continue to ride that kind of a trendline here? What do you foresee? Where will we be a year from now?

Mr. HILL. Well, Senator, I hope that that would not be a trend, but let me just say this to you. Of the $14 billion, a major portion of that was the default of Guardian out of New York which was $7 billion. So that was half of it.

About $1.5 billion of it is the coinsurance program and then the rest of it deals with manufactured housing. I'm not an economist as it relates to housing at this point, but I hope that it does not continue. It obviously reflects on whether or not we have a healthy economy, whether we go into a recession. Those things are some of the factors that would affect the default rate in our portfolio.

The coinsurance aspect of it, as you know, the Secretary has pulled us out of that market so hopefully that will be under management control before long. He's just done that in the last several months. So hopefully you won't have that aspect of our portfolio to deal with on a long-term basis. But of course there will be some spillages as a result of the decision to get out of the coinsurance market, so we may have a few more defaults but hopefully long-term we won't have a lot in the coinsurance aspect of it.

The single family portfolio really is a reflection of the economy and how healthy the economy is long term.

The CHAIRMAN. One of the things I'd like you to do is once—assuming you are confirmed and I expect that you will be—I'd like you to get back to us with a size-up on where these defaults seem to be going and what is there on the horizon and then also relate that back to financial risk to the Government in all those forms.

Mr. HILL. I'd be happy to.

The CHAIRMAN. Do you have the sense that there are adequate resources available now to GNMA to get the job done that you think needs to be done?

Mr. HILL. As I've indicated, Senator, we are in the process of advising the Secretary to reorganize GNMA and that's very much underway. That's the first thing. We really have to deal with the major problems that we have and try to be more reflective of the marketplace at this point in time.

Right now the staff seems to be adequate for our needs at this given point in time. We do have the opportunity to contract out for additional services because we are so specialized, so attuned to the marketplace. So we have that outlet as an opportunity to ensure ourselves of managing the risks and also to try to manage GNMA in a more proper fashion.

The CHAIRMAN. Now some individuals within the housing finance industry have asserted that there is not a significant secondary market for low and moderate income multifamily mortgages and such individuals point to Freddie Mac's lowering of multifamily

loan to value ratio of the multifamily mortgages it's willing to purchase as an indication of this fact.

I'm wondering what is your view of this assertion and what do you think the role of GNMA should be in the multifamily arena?

Mr. HILL. Well, I'll answer that in two ways. The multifamily market has been pretty much financed by the S&L industry, as you know, and we know where that is today. That option to financing future activity is somewhat shut off or is declining.

Also you find that some of the mortgage bankers were in that market as well as FNMA and Freddie Mac were in there as well and they have all been retrenching. It's simply a reflection of the times, a reflection of the economy and a reflection of risks that are difficult to manage and control at this time.

The underwriting criteria really needs to be strengthened as well. Obviously the risks are there and you have to tighten up from an underwriting standpoint.

With regard to GNMA playing a role, we have played a role. Our product that we put out is really geared toward being fully insured. We got in trouble with regard to the coinsurance program when it wasn't a fully insured program, and I don't need to share with you, Senator, where that is right now and Senator Graham has that under review as well.

We would welcome the opportunity to participate in the multifamily program assuming that we could have a fully insured product. GNMA's whole orientation is not to take risks. It is to facilitate and induce the secondary market to provide capital to finance single family and multifamily and mobile home products that are out there and available for the acquiring public. So we stand ready, as I will suggest to you, Senator, and aggressively too, to participate in the multifamily market assuming that we can insulate ourselves from risk because we were not chartered to undertake risks.

The CHAIRMAN. I think this might be a good point, especially with your touching on the coinsurance program and the review that Senator Graham has underway with his special subcommittee effort and investigation. Let me yield now to Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

Art, we've been working, as you know, closely with your staff at HUD relative to our investigation. On March 2, next Friday, we will be holding a hearing on the coinsurance program and GNMA's related mortgage-backed securities program.

At that hearing we will want to consider such issues as the risk which GNMA assumed in guaranteeing securities backed by coinsured loans, the actions that GNMA has taken to enforce its remedies against defaulting coinsurers, and the cooperative actions that GNMA and HUD staff responsible for managing FHA's multifamily mortgage insurance functions are taking to minimize the losses to the Federal Government attributable to coinsured loan and coinsured lender defaults.

Do you have any comments on those issues, particularly what steps are being taken now to see that the Federal Government minimizes its vulnerability to loss?

Mr. HILL. Yes, Senator. Mr. Kalish, who is executive vice president for GNMA, welcomes the opportunity to come before your

panel and I'm sure he will give you a thorough review of what we are doing to guard the Government against those risks.

One of the things that we have done is we have really taken a proactive approach trying to identify anticipated risks. That is, with some of the major coinsured lenders we are trying to keep in touch with them very closely to see what their cash flow levels are, also to send our consultants, Coopers and Lybrand, in to do a cash flow analysis and to try to be able to predict if in fact these entities will be able to sustain the long haul or observe what immediate risk is confronting them.

Right now we are just beginning to move into the area of trying to comprehensively identify our risks with the assistance of Coopers and Lybrand and we are waiting on the studies to come back from Coopers, and I assure you at the next meeting on March 2 Mr. Kalish will have a more detailed response to that question for you.

Right now we are just beginning to move into the area of trying to comprehensively identify our risks with the assistance of Coopers and Lybrand and we are waiting on the studies to come back from Coopers, and I assure you at the next meeting on March 2 Mr. Kalish will have a more detailed response to that question for you.

Senator GRAHAM. Mr. Chairman, I'd like to ask a question in another area.

The CHAIRMAN. Fine.

Senator GRAHAM. Running down the numbers that you cited of the current defaulted loans, you said $7 billion was associated with Guardian?

Mr. HILL. Yes, sir.

Senator GRAHAM. $1.5 billion is in coinsurance and did you say the balance was in manufactured housing?

Mr. HILL. Well, in manufactured housing and other single family defaults as well. I gave you one large single family default which was Guardian. The balance would be single family as well as mobile homes which is about $1 billion.

Senator GRAHAM. Is there anything peculiar about the manufactured housing that has caused—does that number represent a disproportionate amount to the total activities of GNMA and, if so, is there anything peculiar about manufactured housing?

Mr. HILL. Not really, Senator, and it's on the way out, if I might suggest it to you. Right now we are not looking at any new issuers in the manufactured housing market. VA also is looking at that market as well and I think they are considering getting out of it as well.

The CHAIRMAN. Would you just yield at that point? Why? Can you explain the reasoning behind that?

Mr. HILL. Well, it's been a tremendous risk when the dealer underwrites, manufactures and finances the product you have one entity doing the whole transaction. So sometimes—and I wouldn't say all, but sometimes there's a motivation on the part of the underwriter and the lender to move the product and take the fees up front and they capitalize the interest and provide it to the acquiring public and then you have a soft economy where individuals can't maintain their mortgage payments and we have to in fact default them and take back the product.

If you look at manufactured housing, you're looking at an entity that's sort of like an automobile, if you will, Senator. Once you drive it off the lot, it starts to depreciate enormously.

Let me give you an example. When we take into our defaulted portfolio a manufactured housing, let's assume that you have an

average loan value of $20,000. When we take it in as an REO and try to flip it back out to sell it, we can only get 25 percent of the value. So 75 percent you're right there charging off. It's not an attractive product for us.

It obviously requires a little bit of study and scrutiny at this point. A couple years ago GNMA had to capitalize about a $½ billion in reserves for anticipated losses in this market. It has not been an attractive one for us. And I would venture to say to you a couple years ago we had about 7,000 manufactured homes in our defaulted portfolio. We've worked aggressively to get that down below 3,000 and it's on the way down and I just don't see that as being—in its current state, I just don't see it being a viable product for us to be in.

The CHAIRMAN. Thank you, Senator Graham, for yielding.

Senator GRAHAM. I'm particularly interested in this issue because it represents a significant amount of housing for people of America and in my State and your State.

You've described some of the special characteristics of the method by which the marketing and financing of that industry takes place which creates additional risk to GNMA. Is it necessary that GNMA operate in that method or are there not ways in which financing could continue to be available for that form of housing but at an acceptable level of risk and safety margin for the Federal Government?

Mr. HILL. That's a good question, Senator, and we will obviously look at that to see what alternatives we might be able to come up with as a means to putting those particular products in our portfolio.

Currently, as it exists, it's not an attractive one and we need to look toward trying to resolve it because you do have that percentage of the public who cannot afford a downpayment for a regular single family home, wherein a manufactured housing product might be attractive and more affordable to them. We obviously don't want to restrict them, but we would like to manage our risks in a prudent and businesslike manner.

Senator GRAHAM. That's all, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Graham.

I have asked every HUD nominee before this committee for their personal commitment that should they see any evidence at any time of fraud, abuse or political favoritism that they would take immediate steps to stop it and that they would not only act within the agency with respect to reporting that to the appropriate persons, but also if corrective actions are not immediately taken to inform this committee. I want to have your personal assurance that you will act aggressively in that fashion if at any time you see anything of that sort.

Mr. HILL. Senator, you have that. I have valued my reputation over the years very highly and obviously if I have an opportunity to participate at the Federal level I certainly want to maintain that high degree of integrity as well, and I commit that to you as well as other members of the panel.

The CHAIRMAN. Very good.

Let me ask you one other thing here and that is, when speaking before the National Association of Home Builders convention, Sec-

retary Kemp announced that he would enlist the participation of Freddie Mac and Fannie Mae and FHA in joint venture credit facilities for acquisition and development in construction loans.

I am wondering what role GNMA might play in that effort.

Mr. HILL. Again, Senator, GNMA exposes its product to FHA insured or VA guaranteed products. We stand ready to support whatever FHA or VA products that come out that are geared toward ADC or any other product that is insured or fully guaranteed so that we are not exposed to risk. Our primary function is to attract capital through the utilization of our guarantee and the full faith and credit aspect of our product and we can apply that to just about anything, if you will, in the housing market as long as it's fully insured guaranteed.

The CHAIRMAN. Let me ask you how you plan to allocate resources to effectively monitor and review GNMA's issuers' portfolios and I'm wondering if you think the present systems and the amount of personnel are sufficient to accomplish the task.

Mr. HILL. Well, right now we have just reviewed all of our issuers from a financial standpoint, looking at their balance sheet and financial statements to look at their financial stability and see whether or not they can adhere to our net worth requirements as well.

Let me take it in two ways. Let's talk about the defaulted portfolios. Normally when you have a defaulted portfolio we would subcontract that out, if you will. We have had about 25 subcontractors to deal with the mass of defaulted portfolios I shared with you earlier. What we've done is broken it down to two separate categories, one being the single family part of that portfolio and the other being the multifamily part of that portfolio.

What we've done is put out a contract, an RFP, on the single family aspect of it and we have three individual master subservices, managing the defaulted part of the single family part of the portfolio. We will be going out fairly soon with the RFP to deal with the multi family part of the portfolio to shrink down from 25 to about 6. That's one way of managing the $14 billion and the risk aspect as well.

As it relates to looking at the individual issuers, we will have to keep a tight string and make sure we review them on an annual basis, make sure that we communicate with them effectively, to make sure that these individual entities are very healthy and can perform at a reasonable level in dealing with the GNMA program.

The CHAIRMAN. We may have additional questions that we will ask you to respond to for the record. I may have one or two and I want to make sure that we don't miss any from members who are not able to be present this morning.

Senator Graham, do you have anything else?

Senator GRAHAM. No further questions.

The CHAIRMAN. If not, Mr. Hill, I am delighted that you have come forward to assume these responsibilities. They are important. We've got some tough structural clean-up problems to attend to. It's going to take a lot of hard work. We would like to have a top-notch working relationship with you and I would hope that you would feel that always to feel free to contact me, contact the committee. I want us to have a very direct and open positive relation-

ship. I think we do much better when we have those kinds of relationships in place and so I want to just put that foundation in place with you today.

Mr. HILL. Thank you very much, Senator, and I appreciate your invitation to establish the rapport and to work closely with your committee and I look forward to working with you and other members, Senator Graham and other members of your committee in years to come.

The CHAIRMAN. Very good. Thank you very much and we appreciate your testimony and you are excused at this point and we will move on to the next person.

Let me now invite the President's nominee, Philip Lochner, to be a Member of the Securities and Exchange Commission, to come to the table and he is accompanied by our distinguished colleague from Connecticut, Senator Lieberman. Very shortly we will be interested in having Senator Lieberman's comments.

I want to say at this point, Senator Lieberman, your colleague from Connecticut, Senator Dodd, has done an outstanding job and is doing an outstanding job chairing the Securities Subcommittee of the Senate Banking Committee and he very much wanted to be present today and is unable to do so because of other important responsibilities that has him out of the city today. But I want to be sure to acknowledge the fact that but for those other assignments that he's carrying today he would be present and very much interested in your nomination.

Let me just say that over the next few months and years the commissioners of the SEC will face some of the most difficult issues that confront the country. Balancing the interest of issuers, institutional investors, small investors and self-regulatory organizations has never been more complex and of course the SEC must also prepare for the increasing globalization of the capital markets and regulate increasingly interconnected and complicated securities markets and all the while continue to keep pace with newly developed and ever more complex financial instruments. I think these impose demands upon the SEC that are really extraordinary in their dimension and difficulty and so it requires the SEC I think to rise to an even higher level of sophistication and response and we want to continue to work very closely with the SEC in terms of the keen interest that this committee has—that I have as the chairman and that Senator Dodd has as the subcommittee chairman, and as Senator D'Amato of our committee also has had over a period of time, having served himself as chairman of the Securities Subcommittee, an area in which he too has keen interest.

So I'm delighted to have you appear before us now and you have important supporters seated on either side of you.

Senator D'Amato, as a distinguished member of this committee, I would be pleased to ask you now for any comments you want to make about this nominee.

OPENING STATEMENT OF SENATOR D'AMATO

Senator D'AMATO. Thank you very much, Mr. Chairman.

Indeed, it's a privilege to appear here and also, Mr. Chairman, I might add, convey the wishes of my colleague, the senior Senator

from New York, Senator Patrick Moynihan, who had hoped to be here this morning to introduce and to support Mr. Lochner as a nominee for the SEC. He has asked me to convey to the committee his commendation of Mr. Lochner, his full support for his confirmation, and it is in this spirit that I ask that the committee formally note this endorsement as it reflects bipartisan endorsement of this nominee.

Mr. Lochner is indeed an outstanding attorney with an outstanding career. His academics are second to none. Yale Law School—while we question that——

Senator LIEBERMAN. I will present a contrary point of view.

Senator D'AMATO. A Phi Beta graduate of Yale, the Order of the Coif at Yale Law School. He was also on the editorial board of Yale Law and in the law distinguished himself.

Mr. Chairman, I'm going to ask that the full text of my remarks be submitted for the record as if read in their entirety.

The CHAIRMAN. We will make them part of the record.

Senator D'AMATO. Certainly public service is exemplified by the spirit in which Mr. Lochner comes forward. He resides in the State of New York and that a person of his quality and qualifications has accepted the President's nomination to serve in the SEC demonstrates a great commitment to that public service, a great commitment in terms of the economics of a situation where he will be receiving substantially much less money than he is earning now or could earn in the private sector.

So we commend him. I'm certainly fully supportive. I question his wisdom, but we're certainly privileged to be able to recommend him and I think that the President has chosen wisely.

The CHAIRMAN. Thank you, Senator D'Amato. Your endorsement is a very important one in terms of the consideration of this committee.

[Prepared statement of Senator D'Amato follows:]

PREPARED STATEMENT OF SENATOR D'AMATO

Mr. Chairman, it is indeed a pleasure to introduce Philip R. Lochner, Jr. to the Banking Committee and to recommend the speedy approval of his nomination to the Securities and Exchange Commission.

Mr. Lochner's outstanding career in the law was foreshadowed by his truly exceptional academic background. He is a Phi Beta Kappa graduate of Yale University and was order of the Coif at Yale Law School. He also was on the editorial board of the Yale Law Journal.

Following a Fulbright Fellowship at the University of London, Mr. Lochner completed his work toward a Ph. D. in political science at Stanford University. (In light of these credentials, perhaps my colleagues and I should seek Dr. Lochner's counsel on better ways to manage the Senate's business in addition to his views on the securities markets.)

Mr. Lochner's devotion to duty is reflected by his decision to return east despite his time in California to teach and act as Associate Dean at the State University of New York Law School. Upon leaving academia in 1973, Mr. Lochner practiced securities law and corporate law at a fine Wall Street firm, Cravath, Swaine, and Moore and, for the past ten years has been with Time, Incorporated where he is now general counsel, secretary and vice president.

It is testimony to the fine spirit of public service that resides in the State of New York that a person of such quality and qualifications has accepted the President's nomination to the S.E.C. I commend Phil Lochner's desire to serve the public and urge his speedy confirmation.

The CHAIRMAN. Senator Lieberman, we would be pleased to hear from you now.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Mr. Chairman.

I am delighted to join with my colleague, Senator D'Amato, in introducing Phil Lochner to this committee and to restate what you indicated earlier which is the regrets of my senior colleague, Chris Dodd, that he could not be here. He is in fact in Nicaragua this weekend as part of the monitoring of the elections going on there.

We are very proud to claim Phil Lochner. This is a tale of two cities I suppose. I know he has large contacts with New York but we claim him as a resident of Greenwich, CT and proudly so.

I must say that Chris Dodd's absence on service here and my replacement of him gives me an extraordinary personal opportunity to introduce Phil Lochner because this is somebody that I have known now for almost 30 years. We were in fact undergraduates together at Yale College, went to Yale Law School together, and in a very personal sense beyond the extraordinary curriculum vitae that Phil has established over the intervening years as a lawyer, as a professor, as a good citizen, I can testify that personally this is a man of great intellect, of unquestioned integrity, and just plain human decency. He's an engaging person who will bring not only excellent intellectual skills but I think a fine sense of what it means to act honorably and in the public interest and I'm just delighted for him and delighted, if I may say so, for myself to have this opportunity to introduce a dear old friend.

The CHAIRMAN. Thank you very much, Senator Lieberman. I appreciate the comments of both colleagues. I want to invite you to stay or to excuse yourselves if you have other things to do, and we will proceed with Mr. Lochner's discussion here.

Let me say that after reviewing your background and without prejudging the outcome of today's confirmation hearings, it appears as though the SEC would benefit very much by having someone of your expertise serving as a commissioner. I want to for the record repeat and emphasize some of the things noted by both Senators that have just spoken with reference to your graduation from the Yale Law School, your subsequent attendance at the University of London as a Fulbright Fellow, and the fact that you received your Ph.D. from Stanford University in 1971. Also, your teaching at the State University of New York Law School for 2 years and your practice of securities law for 5 years with the law firm of Cravath, Swaine & Moore. Also, we should acknowledge that in 1978 you joined Time, Inc., as a counsel, where you remained until the present time and I think, if confirmed, which I presume you will be, you would bring to the commission the perspective of a corporate issuer and I think that is a perspective that the SEC currently lacks and I think that would be a helpful perspective.

Let me now ask you to stand and take the oath that we administer to all nominees before the committee.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. Let me invite you now, if there's anyone that's accompanying you in your family or other friends or associates that you'd like to introduce to the committee, we would be pleased to have you do so.

Mr. LOCHNER. Thank you, Mr. Chairman. I would like to introduce my wife, Sally, who is with me today, and our children, our daughter Lauren and son John.

The CHAIRMAN. Well, we are pleased to see them all and welcome.

Mr. LOCHNER. Thank you, Mr. Chairman. I do have a brief statement if it would be appropriate.

The CHAIRMAN. Fine. Please proceed and we will make any formal statement a part of the record and then I'd like you to feel free to make whatever oral comments you wish.

STATEMENT OF PHILIP R. LOCHNER, JR., NOMINATED TO BE A MEMBER OF THE SECURITIES AND EXCHANGE COMMISSION

Mr. LOCHNER. Thank you. Mr. Chairman, members of the committee, it's an honor and a privilege to be considered for the position of Commissioner of the Securities and Exchange Commission. I want to thank the President for nominating me and also, Mr. Chairman, I very much want to thank you and the committee for the scheduling of this hearing and the consideration which you and other members of the committee and its staff have shown me through this process.

Several factors underly my enthusiasm for serving with the Commission. First, the high level of integrity and dedication and competence of the Commissioners and the staff of the SEC are well known. It is, without a doubt, one of the very best agencies in Washington, and I would be very proud to join an agency which is so well respected.

I very much hope that its traditions of excellence are maintained, and I certainly expect, if the Senate should confirm my nomination, to do my very best to make sure those traditions are maintained.

I also want to note that it's my clear intent to carry out the congressional policies set forth in the Federal securities laws and preeminent among those, in my own view, Mr. Chairman, are the very tough enforcement policies which the Commission has traditionally had. There is a great need for vigorous and strong enforcement, whether we are talking about penny stock matters, insider trading, market fraud, or broker-dealer issues. Without diligent enforcement, none of the essential purposes, I believe, of the securities laws can be effective—the protection of individual investors and maintaining strong and successful capital markets.

Since I have devoted much of my career as a lawyer to the Federal securities laws, the opportunity to assist in administering those laws would be a unique privilege for me. I have been fortunate, as you have noted, Mr. Chairman, to have practiced in a private firm as well as with a public corporation, and I have had a chance to see at least some aspects of the interface between the securities laws and the practical day-to-day problems which issuers and others in the financial community deal with. I would hope to be able to bring a practical and useful perspective to the Commission's work.

There are many important subjects which demand continued and close attention, it seems to me, if our capital markets are to contin-

ue to be the best in the world. Financial products have become steadily more complicated. Capital flows have become far faster and more international, and the markets have become more interdependent and more competitive, as this committee knows full well.

These developments can offer our economy many benefits, I believe, but they also pose some risks. Adapting successfully to global market forces is a challenge and one which we must meet while simultaneously not losing sight of our traditional goal of protecting individual investors. I think that will be a very significant challenge for the Commission over the next few years.

Finally, Mr. Chairman, I look forward—should the Senate vote to confirm my nomination—to working with the committee and its staff in the future, and I obviously stand ready to answer any questions you or other members of the committee may have.

The CHAIRMAN. Thank you very much. I appreciate those comments and I appreciate the fact that you led off with stressing your commitment to vigorous enforcement and the emphasis that you put on it.

My understanding that the term that you have been nominated for is the unexpired term of David Ruder and therefore that term would run through June 1991. Is that correct?

Mr. LOCHNER. That's my understanding.

The CHAIRMAN. Is it your intention—can you indicate—would it be your intention if at that time you were asked to stay on, that it would be your inclination to imagine that you would or do you have any view as to the length of time in which you might otherwise plan to want to serve?

Mr. LOCHNER. Well, Mr. Chairman, I obviously would like to serve. The only considerations which would give me second thoughts would be if there were some personal or family related matter. Very frankly, Senator, if I didn't feel I was making a contribution to the work of the Commission, I would have serious questions as to whether I should continue to serve. But barring those circumstances, I would be very happy to serve.

The CHAIRMAN. For a longer period of time if so asked?

Mr. LOCHNER. Yes, sir.

The CHAIRMAN. Well, I appreciate hearing that because I think we are at a stage of the game in terms of the issues that you've raised about how our capital markets can function and flourish and have the integrity and the investor confidence that they need I think requires the best people we can find in our society who are willing to serve, willing to truly be public servants and devote themselves over a period of time to the public interest here. That is difficult and demanding work and there are trade-offs. There are opportunity costs of very considerable dimension and they would be in your case professionally as they are for others, but I think we are at a point where the public requirements are such that people of excellent qualification and professional standing have to be prepared to come and serve for a sufficient length of time to help us start to make a constructive difference in the work that has to be done.

So I appreciate the way you have responded to that question because I think the SEC is one place where some continuity of service

is required if we are going to navigate these major changes and structural challenges that are before us. So I am encouraged by your answer and I otherwise hope that your family circumstances and your professional satisfaction levels will be sufficient in any event. In any case, I think it's important that we address that.

Let me move down through some issues here that I think it's important that we establish a record on and have some clear insight into your thinking.

As regards priorities, when you and I had the opportunity to meet earlier, you told me that you believed that the globalization of the securities markets is one of the most important challenges facing the SEC today and certainly I agree with that.

Nonetheless, numerous domestic issues also face the SEC and I'm wondering if you would list as best you can in order of importance the three most important domestic issues currently facing the SEC and generally in what direction you think the SEC should be moving with respect to those top priority issues.

Mr. LOCHNER. Mr. Chairman, I guess I would start with the issue of investor confidence. The institutionalization of the marketplace may be inevitable. Certainly it's been a long time coming. But I would certainly hope we wouldn't lose sight of the importance of the individual investor's being in the market, and there are a number of ways in which I think we can perhaps address that; perhaps encourage the individual investor to enter the market. That would certainly be a key priority.

I think related to that as a second priority is enforcement. I say related to that, Mr. Chairman, because I think without a strong enforcement policy—and again I would point to things such as the penny stock area—investors very understandably may believe that they can't trade in the market, they can't invest in the market, that others have fixed the game. I think that it is absolutely essential that we dispel that perception and unless we do so I don't think we are going to encourage individual investors to stay in the market.

Mr. Chairman, I wouldn't want to be presumptuous in suggesting how they could be settled because I'm not sure I am familiar enough with these issues, but there are some very important jurisdictional questions which I think need to be addressed relating to, for example, the issue of margins. I think the regulation of new kinds of securities is another critical question in the jurisdictional area. And I would hope that I could assist in addressing those issues as well.

The CHAIRMAN. When you say margins, do you start with a view on the question of stock futures and derivative instruments that are traded in other forms that tie back to underlying securities? Do you have a view as to some of the questions that are outstanding in jurisdiction in that area? Do you have some concerns there? Where do you start from?

Mr. LOCHNER. Mr. Chairman, as you know, the Fed sets margin rates for securities transactions while the SEC enforces those margin regulations. In addition, in the commodities area, other institutions set margin rates.

There is a question in my mind as to whether margin levels are sufficiently high to ensure stability in the marketplace—that is, to

make sure that the market doesn't become overly volatile, to make sure that people are able to close their transactions. It's really those two questions I think which are critical. I think there just simply needs to be more coordination in the market with respect to margin area.

The CHAIRMAN. On the discussion that goes on about where the SEC leaves and the CFTC starts up, do you have any view as to whether or not we ought to stay with the existing arrangements or think in terms of any kind of a unified oversight of the securities area in total? What are your thoughts on that?

Mr. LOCHNER. Well, I read Judge Easterbrook's opinion in the *Index Participations* case; I think a brief summary would be that where there is possible conflicting jurisdiction between the CFTC and the SEC, if there was an element of a futurity in an instrument then the CFTC has exclusive jurisdiction in that area.

The particular instruments in question, index participations, as I understand it, never were extensively traded because of the litigation, and they are not any longer traded in the United States. I think they are traded on the London market and in Toronto.

I think that's a very unfortunate result, Mr. Chairman. The possibility that innovation in this country in financial instruments might be stifled because of these kinds of jurisdictional issues is a very serious problem.

I certainly respect Judge Easterbrook. I wonder though whether, Senator, the courts are the best means for settling these jurisdictional lines. I may be reading too much into it—Judge Easterbrook in his opinion seemed genuinely concerned that he was making the wrong policy choice, but he didn't have any other legal option reading the literal words of the Commodities Act. So I do have concerns as to whether the courts are the proper way to address this.

At one point early on in the relationship between the CFTC and the SEC, there was a Johnson-Shad or Shad-Johnson, whichever you prefer, series of agreements relating to jurisdictional issues. My hope would be that that kind of arrangement might be reinstituted between the two agencies. If that should turn out to be impossible, if the agencies can't agree, then I would certainly be prepared to urge the SEC to come back to this committee and discuss whether legislative help was needed.

The CHAIRMAN. I appreciate your response in that area.

Let me move to tender offer reform. As you know, I'm sure, several bills have been introduced in the Senate to reform the tender offer process and I'm wondering what reforms, if any, do you think are needed in the tender offer and leveraged buyout areas.

Mr. LOCHNER. Mr. Chairman, one piece of legislation which has been discussed now for some period of time is closing the 13D window, and I very much support that. I think that's an important step to take.

I don't have access to all these proceedings and the files relating to this matter, but I do understand the Commission has pending several proposals to improve disclosure in the tender offer area, the LBO area and so forth.

In general, if what I read in the press about those proposals is correct, then I support the direction in which those are headed.

Those are the two principal areas in which I think perhaps action is needed.

The CHAIRMAN. Let me ask you just with respect to the question of independence. I take it that you see the SEC as an independent regulatory agency.

Mr. LOCHNER. Absolutely.

The CHAIRMAN. And you obviously bring I think the mental equipment and the training to be able to think for yourself quite sufficiently. Obviously you're going to be listening to views of others and integrating a lot of information, but I think by any professional measure you certainly bring the capacity to make your own judgments as to what you think ought to be done.

I take it that you intend to be an independent member of the SEC and make your own judgments.

Mr. LOCHNER. Absolutely, Mr. Chairman. I hope my style of making up my mind on issues is to listen to all sides and try to gather and go through the facts in as detailed and organized way as I can and reach my own conclusions.

The CHAIRMAN. But with respect to—I don't infer that this would happen and so I pose this sort of in theory because I want to be able to get a nice, crisp response from you. If at any time you got a phone call from somebody in the executive branch of Government that had a strong view on a given decision that was pending in the SEC or somebody in the Congress or somebody in the private sector that was trying to in a sense push you in a direction that they favored, that you are prepared to assert that while you might listen to what somebody has to say, you're not going to be pushed off your own convictions as to what actions and decisions you need to make as an independent SEC Commissioner?

Mr. LOCHNER. Yes. That's absolutely right.

The CHAIRMAN. I think that's essential. Not that you are going to encounter that, although we are at a time where the certifiable independence of judgment may be the most important thing you can bring to your assignment. Obviously you need to be competent and you need to be diligent and you need to be immersed in the details. But in a sense, in the end, if our system is going to work, it has to work on the basis of the best independent judgment that good minds can reach. And I think that's especially true of the SEC and I think that is in keeping with the long traditions of the SEC. As you spoke about it earlier, this is an agency that has a tradition and has a sense of responsibility that it adheres to in terms of really maintaining both the qualitative level of competence as well as a kind of deliberate and fierce independence. I think that's absolutely crucial that that be part of what we have and I take it you share that view.

Mr. LOCHNER. Yes, Mr. Chairman. I think if it should ever be thought that a Commissioner's vote or the Commission itself could be swayed by outside pressures, it would undermine the Commission completely. I think it would make it an ineffective agency, and I certainly wouldn't want any part of that, Senator.

The CHAIRMAN. I also get the sense from reading your background and listening to others that speak in your behalf that you are not an idealogue. You don't come in with a fixed vision, with a

scientific formula as to how the world works that you want to impose on the issues that come down the track.

Mr. LOCHNER. No, Senator, I don't. I hope no one tries to label me as one thing or another. I don't think that would be appropriate. I don't think it would correctly reflect my views.

I think the world changes, Senator, and we have to be responsive to it. If we come in with fixed, unchangeable views, that's a prescription for trouble.

The CHAIRMAN. I take the time to go through that because I believe what you say. I believe you represent that kind of a commitment of the kind that we hope to have, but I am also more and more struck—and I'm reminded of testimony we had just yesterday when Alan Greenspan was seated in the chair in which you are now seated—and we were talking about the nature of how the new global economy seems to work and the impact on monetary policy and interest rates and comparative savings rates and exchange rates and the whole host of factors that go into that—enormously complex, brand new in many respects, new factors all the time, changes in Eastern Europe being just one.

And I think for the United States to chart a course, a sensible course through changed circumstances requires this special combination of intelligence and preparation and professional know-how and also this searching mind of someone who has an independent point of view. Obviously we all bring a philosophy, but within the bounds of our philosophy can weight these questions openly and then in the end render an independent judgment. And out of the sum of independent judgments, in the checks and balances that we have, I think we will come as close to good decisions as we can hope to get. Not that we will always hit it exactly right, but we haven't found any other form that over time seems to work any better than ours.

So I think we are at a time where that kind of public service is particularly critical for us to have because we've got to navigate new circumstances and new conditions for which answers do not exist. They are not in textbooks. They are not in ideological theories. They are not in somebody's memory bank. They are going to have to be developed literally as we go.

Therefore, the process and the way that work is approached I think is critical to the quality of decision that we will make as we go along.

I also think there's a need for action. In other words, I think we've got to try to be more timely. I think these issues can't be debated endlessly. I think at some reasonable point we've got to net out the best thinking we can and we've got to take steps and we've got to make adjustments so that we do some of the things you spoke about before, including maintaining and hopefully elevating investor confidence because I think there's been a major erosion in that area. I don't think it's over. I think we are continuing to see an erosion in investor confidence. I'm talking about the broad population of prospective investors. I think we are seeing an erosion there and I think it's very important that that get turned around because our system has to depend very importantly on investor confidence on a broad scale and not just mutual fund managers or

people that are playing stock index future strategies or others who have some major sort of institutional stake in the game.

In any event, I appreciate what you've had to say in that area and I think it's important that we spend at least a little time ventilating where we are here.

Let me now move to some other areas that I want to touch on and have your on-the-record responses.

Witnesses that have come before the committee have argued that a number of recent market developments such as program trading and just the increase in volatility seem to be having an effect in preventing our markets from serving their traditional capital-raising functions.

Since 1978, you have worked as a corporate counsel to a large corporation with publicly issued securities and I'm wondering if from that experience do you have the sense that raising capital, private equity capital, in today's markets is more difficult than it was 10 years ago?

Mr. LOCHNER. I guess I do, Mr. Chairman. I may be getting ahead of things here, but in trying to attribute why that may be the case, if you compare the last decade with previous decades, certainly program trading, at least according to the published reports I've seen, has been a contributor to that volatility. I think several independent looks at that issue suggest that that's the case.

But I think there are also some broader factors at work. Questions such as interest rates, our tax structure, the apparently low level of savings in the United States—these may be as fundamental in terms of dissuading people from investing in the equity markets as day-to-day volatility. And I would hope there would be ways to address that whole range of issues.

I realize not all of those fall within the SEC's jurisdiction.

The CHAIRMAN. Let me take you into the area of junk bonds and leveraged buyouts. On October 5, I sent a letter to both Secretary Brady and to Chairman Breeden requesting their views on a number of issues relating to junk bonds and the leveraged buyouts. It was a very carefully written letter because I have a real concern in that area as to other members of this committee.

It took quite some period of time to get responses. We are still working on an adequacy of response, if you will. But in light of the sharp decline in the junk bond market in the more recent development of the bankruptcy filing of Drexel, I want to pose a question or two to you today that was raised in those letters.

First, do you think that the SEC should assemble information on what kinds of financial institutions hold junk bonds and in what amounts? And by financial institutions, I mean banks, thrifts, pension funds, insurance companies, mutual funds, anybody else.

Mr. LOCHNER. Mr. Chairman, unfortunately, one of the issues which has made dealing with the junk bond phenomenon difficult is the lack of systematic data in the area. It sometimes amuses me when I see charts appearing in the newspapers showing some number of junk bond issues out there. Drexel, Burnham, Lambert always seems to be the source of the information.

To the best of my knowledge there is not systematic information on who holds junk debt, how long it's been held, whether these are long-term investors or traders, and I think in order to understand

the phenomenon better we absolutely do need more information on this area.

The CHAIRMAN. I actually received a response from a very high Government official on questions related to this and the data attachments were from Drexel Burnham directly. I mean they were right down at the bottom of the sheet, which was sort of a bit of a jolt.

But we must have more comprehensive and independent information and there's a public requirement for it and I think investors need to have it—first-hand investors, down-the-line investors. Somebody today is sitting out somewhere in the country, whether it's in Michigan or Connecticut or any other State, may be relying on their future pension benefits being paid out as committed based on a portfolio that may have unusual elements of risk associated with it is something that carries with it a certain public responsibility that attaches to understanding what the risks may be that need to be known and need to be disclosed. And the same thing with respect to insurance companies and others.

We are very late in responding in that area in terms of understanding the conditions of that market, how it works.

I might just say as an aside, when we passed the savings and loan reform legislation here last year we took the savings and loans, as you may know, out of the junk bond business and we found some very interesting things in the course of our inquiry which we conducted in this committee. One, for example, was that savings and loans across the country were allowed—with a Federal savings and loan charter—were allowed to have up to 11 percent of their assets in junk bonds, but State-granted powers to State-chartered thrifts in some cases were allowed to go way beyond that. To such an extreme, for example, in the State of California, a State-chartered thrift could have up to 40 percent of its assets in junk bonds and all of this, by the way, resting on Federal deposit insurance.

So when the collapse of the FSLIC fund took place and the S&L problems that we've seen, 70 percent of the aggregate losses in the country were occurring in just two States, Texas and California, largely as a result of excessive State powers granted to State-chartered thrifts.

Now we've had a very hard time. I mean this is a complex story and there are only so many paragraph inches or seconds on an evening television show that the news—particularly the financial news gatherers and writers and presenters can get, so it hasn't been necessarily easy to get some aspects of this story out there. That's just one illustration.

As we now go down through the list of holdings, for example, of junk bonds—who has the junk bonds—it turns out that 30 percent of all the junk bonds in the country today are held by insurance companies and we don't regulate insurance companies at the Federal level. We do it at the level of the 50 States. So it's hard to collect the data quickly as to what the exposures may be out there and to whom.

Now the SEC I think has certain opportunities to collect data that it needs to fully avail itself of, but we are pursuing that through other avenues.

But the same thing is true now with respect to pension funds. It turns out, for example, that in some of the leveraged buyout activities somebody could go in, take over a firm, go into the pension fund, capture excess reserves, replace those with annuity programs through private insurers based on junk bond holdings that may or may not have value and pay off at some future date. So you've got the picture that starts to emerge of folks out there in pension situations who may have absolutely no awareness whatsoever that the pension they worked through a lifetime of work and paid for may in fact not have the value present out there to cover the pension payments that they are otherwise entitled to receive.

I don't say that to try to create a great scare about that problem on a broad scale. We don't know right now how widespread those problems are and in a sense they are accentuated because of the sudden downdraft and problems that have manifested themselves in the junk bond market. But again, it seems to me that the SEC, as a responsible body with a Federal scope, needs to understand exactly where we are with respect to junk bonds that are out there, what are the risk profiles, what exposures may now exist that go beyond what is sound or what is good.

We've also got this problem with respect to sort of the stage before the junk bond stage and that's these bridge loans that are outstanding in any number of institutions, investment houses and banks that have not yet been converted into junk bonds but in a sense are sort of prejunk bond junk bonds or financial exposures out there. We don't have a clear sense as to how big that problem is. I get the feeling it's bigger than anybody wants to talk about and maybe that's one of the reasons why it isn't very well known or very well aggregated because there are reasons why the development of that situation would have taken place in such a fashion as to not want to necessarily advertise it in any open way.

So we are playing I think catch-up in terms of trying to understand what some of these structural problems may be out there and I think it's going to take inquiring minds to start to assemble information that we need to have so that we understand what kind of risk profiles have been created.

So I take the time to digress on that just to share with you some concerns that I think the SEC is going to have to help us deal with.

Related to that, it's often difficult to obtain current price information about junk bonds. I'm wondering if you have any thoughts as to whether we need some kind of a more modernized quotation system, maybe something that's modeled after the NASDAQ system, where small investors or investors of any size could get price information on junk bonds on a real time basis.

Is the market pricing system sufficient or should we be thinking about doing something in that area?

Mr. LOCHNER. Mr. Chairman, as you know, at least again according to press reports, Drexel pretty much made the market in high yield securities, and with Drexel's disappearance from that market-making function, something will need to take its place.

I can't predict where the market is going or how that's going to work out. I think it is possible that a number of investment banks will try to take the role that Drexel was playing and become market-makers themselves. The more information the investors have on pricing, the more liquid the market ought to be. We'll get bid and ask prices coming closer and closer.

So if that should be necessary, it would be perfectly appropriate to encourage some system like the NASDAQ system, to track those trades.

The CHAIRMAN. Let me ask you what you consider to be the major issues regarding the internationalization of the capital markets.

Mr. LOCHNER. They fall into a couple of categories, Mr. Chairman. Perhaps the thing that concerns me most at this time—and I know the Commission has been working on these issues—is that we really need adequate contact between the various international markets.

Since 1987, within the United States, the Commission, the Fed, and others, including the exchanges, have developed a much closer linked system of information exchange and an improved ability to act quickly in the case of a crisis.

I'm not confident that on the international side those linkages yet exist. They exist, but I'm not sure whether they are close enough and tight enough so that regulators on a worldwide basis can react in case of some kind of market crisis. So that's one very critical area.

Another important area is enforcement. As you know, Mr. Chairman, there is an international enforcement bill before Congress, but I think more work needs to be done in the enforcement area. I know Bill McLucas, Michael Mann, and others in the enforcement area have been working hard to create the connections or the regulatory meetings between the United States and other jurisdictions so that enforcement actions can be taken swiftly and information can travel back and forth between enforcement authorities.

I think those are certainly two important areas.

The CHAIRMAN. Let me just ask you one other thing and then we'll finish here and we will give you some questions that others may want you to respond to for the record.

I want to just get a sense from you as to what your thinking might be about what we've seen this week in the Tokyo stock market. It's interesting that today, Friday, which of course has already occurred over there, the Tokyo market was down 936 points, which is a 2.6 percent drop. That's a pretty good size daily drop on any market. But if you look at the week, the index lost 2569 points, which is a 6.9 percent drop. That's a pretty hefty drop over a 5-day trading cycle.

And there are concerns about interest rates going up there and other things and in fact there are some reports that state that U.S. firms are using program trading strategies in Tokyo on Friday. I don't know what impact, if any, that has, if in fact that's an accurate accounting.

The London market for Friday, which is still open—I'm not quite sure in terms of the timing, maybe it's not open now—but it was down approximately 40 points as of 8:40 a.m. our time today and

that was a 1.78 or 1.8 percent drop. So it was a pretty hefty drop as well.

So we are seeing this volatility other places. I'm just wondering when you see these kinds of substantial drops in markets like Tokyo, what do you think they mean for us these days? Do you have a concern as somebody coming into the SEC as to the interconnection of these prominent world markets other places when we start seeing drops like that and volatility of that kind? What's it likely to mean for us? I don't mean any one-for-one predictive sense, but I just wonder, in your own mind, as you start to integrate facts like that into what this means for us here in terms of our markets, what are your thoughts?

Mr. LOCHNER. It's pretty clear to me, Mr. Chairman, that there are a couple things going on. One is that obviously 25 or 30 years ago the ability to transmit real-time market data between Tokyo and London was much less well developed than it is now. Small changes in one market can very much affect trading in another market. Now, in addition, even when the markets are officially closed, we've got off-market trading so that the whole cycle is much, much quicker.

That's why, parenthetically, I think it's important that the various agencies and exchanges work together to establish international circuit-breakers and that sort of thing.

With respect to what's just happened in Tokyo, the reports I've heard suggest that there are at least two things going on. One is a genuine concern about long-term rates, and that exists as well in Europe. After all, when you can buy a long bond and get a yield of whatever it is, say, 8.6 percent here in the United States, maybe equities don't look as attractive comparatively.

It is reasonably well established that there is a significant amount of program trading going on outside the United States, and that may make the Tokyo market more volatile, another market more volatile, whatever market it's occurring in more volatile.

There are also some factors which are really limited to the particular country. I think analysts generally have been disappointed by corporate earnings projections for this year, and I think that accounts for part of the slide in our own market, and that factor wouldn't necessarily impact the Tokyo market or London.

So things are going on at a variety of planes simultaneously, and I think a trader who was honest would tell you that even he or she wasn't sure exactly what was triggering a decline in a given market on a given day. But it does all come back to having this kind of web of international relations, whether it's on the enforcement side or the market side, to make sure that actions in one market don't adversely affect actions in another market.

The CHAIRMAN. You mentioned just in passing the concept of an international circuit-breaker and I think it's the kind of concept that now has to enter our mind. How one might think about doing it is another matter, but there was—I'm sure you read the piece the other day in the Wall Street Journal about sort of a "what-if" piece, if there were a major fall in the Japanese market and what it now looks like the spinoffs would be in markets other places and very much in our own market. And it's not science fiction, but it's pretty unnerving to start to think about the interrelationships

here, particularly if we get volatility beyond a point that we don't need to have. I mean, in a sense, manufactured volatility that may relate to the fact that we weren't as far-sighted as we might have been to sort of engineer the way markets work in such a fashion to keep the excess volatility out. Not that that's what's driving events here, but it's probably a combination of things and certainly anything that doesn't need to be in there in the sense of excessive volatility we ought to try to find a way to be smart enough to keep to a minimum.

In any case, I appreciate your answers today. I appreciate the directness of your responses. I want to say to you, as I said to our previous nominee, we want to have a top-notch professional relationship between the SEC and yourself as a prospective commissioner and this committee. On this committee in terms of the full membership now of the committee, we have I think a particularly strong and committed membership on the questions that face us as they relate to our market system particularly. So we ought to have good open, direct discussion and communication and we ought to work together as closely as possible and certainly it's our intent to want to have that kind of relationship with you.

Mr. LOCHNER. I would look forward to it, Mr. Chairman.

The CHAIRMAN. Very good. Thank you very much for your testimony and we would be pleased to excuse you at this point and then we will move on to our next nominee.

Mr. LOCHNER. Thank you.

The Chairman. Thank you.

The CHAIRMAN. Thank you.

At this point the committee will consider the nomination of Jack Adair to be inspector general of the Resolution Trust Corporation, a very important position. I know Senator Graham, who was here earlier, hopes to return because he has a particular interest in this as do I. So we welcome you before the committee at this point.

For the record I want to note that the committee received Mr. Adair's nomination papers on February 20, which was of course only 3 days ago, so this committee has done everything it can to expedite the process. I don't know that we have gotten any nominees any faster that are newly minted than we have in your case, and I want to applaud the administration for sending up the nomination because we have stressed before the importance of getting these key positions filled and so I want to say a word of commendation to the administration for moving on this particular very important position.

There are others that are left, including the independent members of the RTC Oversight Board and the entire board of directors of the Federal Housing Finance Board, and those positions very much need to be filled and of course the clock is running. So I hope that maybe we will see some action there similar to what we are privileged to see with respect now to the job that you are here about.

Over its 7½ year life, the RTC will have to dispose of hundreds of billions of dollars of property and award contracts worth tens of billions of dollars to private contractors. In this year alone, its initial year of operations, the RTC will pay out some $2 billion—$2 billion in fees, commissions, compensation, and related expenses.

Such a large and complex operation presents a lot of opportunities for things to go wrong. It will be the inspector general's job to keep the system honest and efficient and clearly these two objectives go hand-in-hand because honesty is obviously cost-effective.

The RTC can only obtain maximum value for its properties in a truly competitive market, free of any favoritism of any kind. The inspector general is accountable to Congress. The inspector general act says as follows: "Inspector generals have a statutory duty to keep Congress fully and currently informed." Those words were not chosen by accident, but I want to stress the "fully and currently." We don't want to be behind the curve and we don't want to have piecemeal insight. We want the full story and we want it just as soon as it's available.

For the inspector general of the RTC, that's not all. The inspector general will also report to both the RTC's board of directors and the oversight board, which includes representatives of the FDIC, the Federal Reserve Board, and the Department of Housing and Urban Development. So the inspector general will have not only a uniquely broad perspective of the RTC's operations, but will also have to be accountable to a uniquely broad set of institutions and individuals.

Mr. Adair has a quarter century of experience with the GAO, most recently in charge of evaluating the work done by the inspector general at several agencies. So I want to welcome you to this hearing and we look forward to discussing the issues with you.

Let me now ask you to stand, if you will, and take the oath that all nominees are asked to take.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. Let me invite you now to introduce any members of your family or others that are accompanying you today that you would like us to meet.

Mr. ADAIR. Thank you, Mr. Chairman. I would like to introduce my wife, Kathy; and my daughter Chrissy, and my son John at this time.

The CHAIRMAN. We are delighted to have you all here and we know these are team jobs. You've been in Government now for some period of time so you, as a family, know that and this is an important job. But we appreciate the fact that you are all aboard here.

Let me invite you also now to make any opening comments you may wish to make and any statement that you have beyond that we will make a part of the record.

STATEMENT OF JOHN J. ADAIR, NOMINATED TO BE INSPECTOR GENERAL OF THE RESOLUTION TRUST CORPORATION

Mr. ADAIR. Thank you, Mr. Chairman. I will abbreviate the statement. You've covered some of it in your remarks. First, I want to thank you and the committee for moving so swiftly on this nomination. It is, I guess, something near record time to do this in just a matter of days.

As you mentioned, the Resolution Trust Corporation has an enormously difficult job ahead of it. It's charged with managing and resolving hundreds of failed thrifts that come under its jurisdiction.

It will ultimately be responsible for disposing of hundreds of billions of dollars worth of thrift assets.

The opportunities for fraud, waste and abuse in programs operated by the RTC are obvious. Potential for loss is far greater than the dollar losses attached to the recent HUD scandal.

The General Accounting Office in a recent letter to the Senate Governmental Affairs and House Government Operations Committees placed the RTC at the top of its list of 14 areas of high vulnerability that are targeted for special audit attention by GAO.

Of course, because of that vulnerability, an Office of Inspector General should be established as quickly as possible to focus on the prevention and detection of fraud, waste and abuse at the RTC.

As you mentioned, I have worked for some 25 years for the General Accounting Office, the majority of that time in the fraud prevention and audit oversight area, including several years running GAO's fraud hot-line. Much of my work has involved reviewing and working with various Offices of Inspector General, and I think that experience and the knowledge I have gained from this work will serve me well as inspector general at the RTC.

As you mentioned, the RTC inspector general will report not only to the Congress but to two boards, the RTC board and an oversight board. When I was being considered for the position, I talked with members of both boards and was impressed with their desire for a strong office of inspector general. Both boards clearly expect the inspector general's office to play an important role in helping the RTC fulfill its mission.

Mr. Chairman, if confirmed, I would look forward to working with both boards, the General Accounting Office, especially with this committee, and other congressional committees involved in the oversight of the RTC. I think it's clear that succeeding in an undertaking as immense and complex as the RTC faces is going to require not only hard work but the attention and support of top Federal executives and Members of the Congress. I hope to have the opportunity to be a part of that effort.

I would be pleased to respond to any questions that you may have at this time.

The CHAIRMAN. Well, we are pleased to have you here today and I want to start out by talking a little bit about the nature of the assignment that you are being asked to take on here because this is an important job. There are a lot of important jobs in this Government, but this one is way up there on the list and I know you appreciate that fact.

I think it's a very demanding job and I think you've got to be very strong and very willing to say whatever needs to be said, whether people want to hear it or not.

Do you feel like you are at a point in your professional career, if you've got to say something that somebody doesn't want to hear that needs to be said, that you are prepared to say it?

Mr. ADAIR. I wouldn't accept the job if I didn't feel that way. I've been in a situation that involves overseeing the work of the Federal inspector general community ever since it was created in 1978 and I think I've been very close to it. I recognize the need for candor from an inspector general. I think we've learned lessons as the years have gone on, most particularly and most recently with

the HUD scandal. The inspector general there, Paul Adams, I think in hindsight certainly did point out a number of the problems. From talking with Paul I know he would agree that he needed to be more direct in his language and perhaps bring the matters to the attention of the Congress more forcefully and vividly. I think the inspector general community is now reconsidering the language it uses in its semiannual reports to the Congress and certainly we expect to be more direct in the way we report from now on. I say "we," anticipating being a member of that community.

The CHAIRMAN. I want to say to you that in the same fashion in which we've taken this nomination up within 3 days of receiving it, at any time you feel you have something important that needs to be said to this committee as the oversight committee in this area, I want you to pick up the telephone and I want you to call me without a moment's delay and I will arrange to meet with you as quickly as we've arranged this hearing and if there's a need to assemble the committee we will assemble the committee because, in a sense, your ability to function is in part connected to the diligence that we apply in an oversight capacity to make sure that you've got a place to be heard and to lay out concerns that you may have.

Now we are not the only contact point that you will have, but I view our oversight responsibilities as such that if you spot something that needs to be addressed or is out of kilter, I want to know it and I want this committee to know it and there can't be any ifs, ands or buts about it.

So I offer that to you in the sense of making it clear the fact that we will be immediately available to respond to anything, large or small, that you find in your work. So I would ask you, can we expect then, having stated that, that we will hear from you without any delay any time you spot a problem that we need to know about?

Mr. ADAIR. Absolutely, Mr. Chairman. I think it's probably helpful that my experience has been in working for the General Accounting Office which obviously works for the Congress. I've had many, many dealings with the Congress, have testified before the House and Senate, and am very comfortable in working with Senators, Congressmen, and their staffs. I would have no problem whatsoever in getting in touch with the appropriate committees to bring something to their attention.

The CHAIRMAN. I'm a great admirer of Mr. Bowsher's, as I'm sure you are, but I think he has brought a very fine level of dedication to the job. In addition to that, I think he has been important in terms of his willingness to speak frankly and to say things that need saying that may not always be welcomed by every audience.

And yet, in order to be effective in his assignment, he has to be willing to do that. He has to be willing to be very forthright, very direct, and he has been. I think he has set a very important example and I take it that it's your intention to operate in that manner in this assignment.

Mr. ADAIR. Yes, sir, it is.

The CHAIRMAN. I'm pleased to hear that. I know my colleagues will feel the same way.

Let me now pose some specific items to you. The Inspector General Act of 1978 says the inspector general shall—and I quote—"conduct and supervise audits and investigations relating to programs and operations."

I'd like you to give me a brief summary of the qualifications that you bring to the assignment of undertaking such audits and investigations.

Mr. ADAIR. Well, I am a certified public accountant. I do have a master's degree in accounting and of course 25 years with the General Accounting Office involved in reviewing programs. I think we're probably the closest thing to an Office of Inspector General—the GAO is—that you would find throughout the Government. In other words, we view the inspector general community as sister agencies to the General Accounting Office. We operate in much the same way. We follow the same standards. I think the transition to the inspector general community would be a relatively simple one for me.

The CHAIRMAN. How many employees do you expect to have at the RTC?

Mr. ADAIR. It would of course be necessary to get into the programs and to see exactly what needs to be done, but I anticipate there will be several hundred employees of the Office of Inspector General before it's fully staffed.

The CHAIRMAN. And what kind of experience do you have in supervising a staff of that size?

Mr. ADAIR. Well, I have had as many as 200 people working for me, sometimes as many as 100 people working on one major assignment. So I don't think there would be any difficulty in managing a staff of that size.

The CHAIRMAN. If you should run into a problem with the Office of Management and Budget—I don't presume necessarily that you will, but oftentimes agencies of the Government seem to, especially in the budget environment we find ourselves—if you run into a problem where you are not able to feel you're getting the resources you need to do the job, I want your unequivocal statement now that you will come and tell us that.

Mr. ADAIR. I would be happy to do that. I know some of the IG's have made staff constraints known through their semiannual report, but I think what I'm hearing you say is you wouldn't want to wait that long to hear that, you would want to hear it right away.

The CHAIRMAN. Pick up the phone. It's an important job and you need to have the people you need. I don't gather you're an empire builder. I don't assume you are going to ask for more people than you need, but what you need you must have. So if there's any problems in that area, I want to know about it immediately.

Mr. ADAIR. Thank you.

The CHAIRMAN. I know from your own experience that you've got this important area of judgment that you have to reach in terms of when you've got a problem that's serious enough that you really need to blow the whistle on the problem and I'm sure that as you're trying to put facts together and you're trying to bring about changes or corrections in process or in practice that are needed that there's a judgment call that has to be made in terms of wheth-

er or not the problem is of the size and can be corrected readily or whether or not it's more systemic and it's not yielding to a proper solution and so forth, which really requires you to have to really blow the whistle, so to speak, on that problem.

I want you to give me a little bit of a sense for how you tend to view that kind of a test when you face it.

Mr. ADAIR. Well, it seems to me in looking at how the IG's operate that the major problem that they run into is when they report a situation and management agrees that there is something wrong and management agrees to fix it, where they run into trouble is that the IG goes off to do some other work and management does not keep its word to do what it agreed to do.

I think as much as one-fourth to one-third of the agreed-to recommendations by management end up not being implemented. This is almost universal across the Government and I think the IG community is now focusing on this because that seems to be where everyone gets in the most trouble. You think you've solved the problem and you really have not.

I would want to attempt to circumvent that problem by creating a position within the inspector general's office that's in charge of follow-up and making sure that what management agrees to do actually gets done. Sometimes this takes months before an action can be completed, but I want someone to stay with our recommendations and make sure that they are implemented.

I think, to move into your specific question, if management doesn't take that action or management disagrees and we feel that the Congress needs to know that there is a problem and management is not taking action on it, then I think that's the final step where an IG would need to blow the whistle, as you say, and let that be known.

The CHAIRMAN. Now let me pose a little different kind of a question.

I'm a finance person by background. I used to work in IBM and have been around Government a number of years here in the Congress so I've had a chance to see a lot of different kinds of situations. Sometimes you can have a situation where there's a breakdown in a given spot for a particular reason. Either there's a defective rule or somebody is behaving improperly or somehow the system is malfunctioning and you can track it down and you can get to that problem. In a sense, those are the easiest problems.

Sometimes you have systemic failures. Sometimes you have a situation where a whole system isn't engineered properly, that A isn't wired to B, to C to D, and so even though it may look fine on paper, when you throw the switch and try to make it work it just can't function. There are some people right now that are speculating to that effect with respect even to the design of the RTC. While I haven't read it, I'm told that an organization chart that is complex in the extreme is repeated in a piece in the Wall Street Journal today. Interestingly, we had that same chart in here at one of our very early hearings last year because we had a concern exactly about that problem—the complexity of the engineering structure of the organization itself.

So we asked that it be put on a presentation board and it came in at that time and we expressed a great deal of concern about it as

to whether or not it was going to be able to work efficiently and we were told at the time repeatedly by the administration witnesses that this was well-conceived and it was that way for a purpose and, yes, it would work and so forth. So the jury is out as to how effectively it can be made to work and we want it to work, so we are hopeful about it and we want to be constructive in trying to figure out how we help make the machinery work.

All of that is by way of leading to this question and that is, do you also see your responsibility as the inspector general on something that's new and vast in size like this to also be thinking in terms of the overall functional capacity and performance of this system in its entirety? If you became convinced, for example, that there were basic systemic defects that were keeping the RTC from working, do you see that as within your purview to look for and to blow the whistle on?

Mr. ADAIR. Yes, I do. I think if the organizational structure that's been created turns out to be something that prevents the RTC from fulfilling its mission, then I think it would certainly be within my purview to report that to any level.

The CHAIRMAN. I want to say to you that—and I'm not quite sure as to the time period—maybe it's 90 days, maybe it's 120 days. I'd like to ask you to, as one of your first work assignments as you move into this job as I expect you will, to review the structure and to review the questions that have been raised about whether or not the overall design appears workable. I mean, obviously it's within reasonable parameters. We're not talking about—we don't do things perfectly around here. I wish we were able to do that. But in terms of its basic design, I'm going to ask you to come back in a period of 90 days or thereabouts and to give us an assessment on that question as to whether or not we've got a system that by its inherent design and nature is workable and therefore in the process of working and if there are problems of making it work that they would be in some area other than in the sheer design and structure of the system.

Mr. ADAIR. I'd be happy to do that, Mr. Chairman.

The CHAIRMAN. So we have that agreement and I appreciate your commitment to do that and come back and to share that with us.

The next question I want to ask, we don't have any clear determination as to the length of time that you might serve in this assignment and my hope would be, given your long record and the fact that you bring the kind of credentials that this job needs to have, I'd like to be able to think that you'll be there long enough to really get this thing up on your radar screen and be able to get your team together and know that we're doing what needs to be done.

What kind of a professional time commitment do you see yourself being willing to devote to this assignment?

Mr. ADAIR. Well, as I understand it, the law indicates that RTC would cease to exist I believe in 1996 and I would certainly intend to stay and see this through until that time. Of course if it extends beyond that, I would see at that time.

The CHAIRMAN. Good. I appreciate that answer and I was just trying to see if your wife and kids were swallowing hard when you said that and they seemed to be reasonably agreeable.

That's important because I think we need to have a highly competent steady inspector general here who can see this thing through and I don't see it as an adversarial role and I don't mean to convey that tone. We all work for the American people. We're all trying to get the same job done. But your responsibility is different in the sense that you have to be the one that certifies that the system is working properly and because this is borne out of a system that did not work properly for a whole host of reasons over a decade or a decade and a half, it's very important that what we do here work properly, that the system be properly designed, that it work honestly and fairly from A to Z.

I'm not sure there's anybody that's got a more important job in the RTC than you do because you're sort of the bottom line guy. You're the person who has to evaluate everybody else's work in a sense. So I appreciate the fact that you are willing to see this thing through to the end.

Let me ask you this. Just in respect to teeing up this job, have you met with Bill Taylor and David Cook to discuss the role of inspector general?

Mr. ADAIR. Yes, sir, I have. And I'm very pleased with the support that they appear to be going to give to the inspector general office. I just met with Mr. Taylor this week and he, I believe, views having an effective inspector general as being important to the oversight board being able to carry out its work. I think he views the staff of the inspector general, depending on the size of the office of inspector general, as perhaps allowing him to operate with fewer staff himself. I think he will be looking to the inspector general and reports of the office of inspector general to provide him with some of the information that he would otherwise have to find out for himself, using his staff.

The CHAIRMAN. Did anyone from the RTC or the oversight board review your opening statement for today's hearing?

Mr. ADAIR. No, Mr. Chairman, they did not; and I would not expect them to be in a position to review any testimony I give. I would probably provide it in the future for their information but not for their review or an opportunity to change it.

The CHAIRMAN. Good. That's exactly the way it needs to be.

Senator Graham had hoped to return and has not been able to do so. He's detained elsewhere. He has asked me to relate this matter to you. As you know, he's the head of our special investigating subcommittee on HUD problems.

He has indicated that there is some knowledge that some individuals who have received large fees for their contracts in the HUD Moderate Rehab scandal have apparently crossed the street and now are trying to work the RTC side of the street and there's some indications that some of these folks may be offering their services for a $10,000 fee to try to help people acquire RTC property.

I can't go beyond that because this is a reference to a matter that Senator Graham has asked me to raise for him and I don't present it from the point of view of asserting that this is a cold fact. There are indications this may be taking place.

He wants you—and I support him in this request—to watch these real estate activities closely to make sure that there is not an inside track that somebody is working for a special fee or that somebody somehow or other is able to cash in on this process. I think that any time you've got property disposal of the scale such as we have here, you're going to have people who may try to somehow work this system in a way to their own private advantage and we have insisted on a competitive bidding process and I applaud the work that's been done to catalog the assets that are available and get them out in a public distribution form so that you've got all potential buyers, if you will, starting out on an even footing in terms of having the information, being able to go look at properties, and get into the bidding process so that we can really establish a fair market system.

So on Senator Graham's behalf, consider this then his alert to you to keep your eye open for anything that looks like this that may be going on or attempting to go on.

Mr. ADAIR. I will be pleased to do that, Mr. Chairman.

The CHAIRMAN. With that, I think we've covered the items that I wanted to cover and I'm going to indicate to you that we may have some other questions that we want to have you respond to for the record. We want to move quickly on this, so I know that anything we give you to answer for the record that you will do so we complete the record and move on.

With that, I want to thank you for your answers today and I thank you for your Government service. These are important times and we need top-notch people who are willing to work for the people and I sense that you bring that kind of dedication, as does your family, and we appreciate that.

Mr. ADAIR. Thank you, Mr. Chairman.

The CHAIRMAN. The committee stands in recess.

[Whereupon, at 12:05 p.m. the hearing was adjourned.]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Hill (LAST) Arthur (FIRST) James (OTHER)

Position to which nominated: President - Government National Mortgage Association Date of nomination:

Date of birth: 04 (DAY) 07 (MONTH) 48 (YEAR) Place of birth: Jacksonville, Florida

Marital status: Divorced Full name of spouse:

Name and ages of children: Lolita A. Hill — 19 years old

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Southern Methodist Graduate School of Banking	7/79	Graduate Diploma	8/81
University of Florida Gainesville, Florida	6/71 - 12/83	Masters AG - Econ.	12/83
Florida Memorial College - Miami, FL	9/67 - 5/71	B.B.A.	5/71

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

1988 - Johns Hopkins/PEW Charitable Trust - Successor Generation

1989 - Bill Colson Leadership Award - Chamber of Commerce

1987 - Who's Who Among Black America

1988 - Who's Who in the South and Southwest

1989 - Who's Who in Finance and Industry

1971 - Rockefeller Foundation Grant - Graduate Studies, Univ. of Florida

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Chamber of Commerce	Executive Committee	1986 - 1989
Miami Herald Board of Economist	Board Member	1985 - 1989
Beacon Council	Exec. Com.; Treas.	1985 - 1989
Leroy Collins Center for Public Policy	Board of Governors	1989
Miami - Dade Community College	Endowment Trust Investment Board	1987 - 1989
Partners for Youth	Advisory Board	1985 - 1989
United Way - Dade County	Exec. Com.; Treas.	1985 - 1989

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

1984 - 1989: Chairman, President & Chief Executive Officer
Peoples National Bank of Commerce
Miami, Florida

1983 - 1984: Vice President & Regional Manager, Corporate Lending Div.
Amerifirst Savings Bank
Miami, Florida

1979 - 1983: Vice President/Corporate Banking Division
Southeast Bank, N.A.
Miami, Florida

1974 - 1979: Assistant Vice President/Money Market Group Head
Southeast Bank, N.A.
Miami, Florida

Government experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

State of Florida Transportation Commission - Vice Chairman

Florida Black Business Investment Board - Chairman

City of Miami Bond Refinancing Committee

Dade County School Board Alternative Financing Options Committee

Bayfront Park Trust - City of Miami

Miami Capital Development Corporation - Board Member

Published writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

As a member of the Miami Herald Board of Economist, my views on a wide range of domestic and international economic issues were printed in the Miami Herald on a quarterly basis since 1985.

Political affiliations and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

1989 - Elector - Florida Electorial College

1988 - Delegate - Republican National Convention

1988 - National Steering Committee - George Bush for President

1988 - Co-Chair Steering Committee - George Bush for President - Miami

1988 - State Chairman - Black Americans for Bush - Florida

Continuation Sheet - Page 3-A

Political
affiliations
and activities: 1988 - Member National Executive Committee of
Commerce & Industry Leaders for Bush

1987 - Republican Senatorial Inner Circle

Member - Republican National Committee

Member - Republican Party of Florida

Member - Republican Party of Dade County

Former Chairman - Southeast Banking Corporation - PAC

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

1988 - George Bush for President - $1,000

1988 - Connie Mack for U.S. Senate - $500

1986 - Bob Graham for U.S. Senate - $500

1986 - Re-Elect Paula Hawkins, U.S. Senate - $1,000

1989 - Ileana Ros-Lehtinen for Congress - $500

1986 - Bob Martinez for Governor - $1,000

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   Yes.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

   None.

3. Has anybody made you a commitment to a job after you leave government?

   No.

4. Do you expect to serve the full term for which you have been appointed?

   Yes.

ATTACHMENT

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Qualifications: State fully your qualifications to serve in the position to which you have been named.

Having established a successful career as an executive in the financial services industry over the past fifteen years, coupled with a graduate degree in the academic discipline of economics are both seen as desirable prerequisites for serving as President of the Government National Mortgage Association.

As Chairman, President and Chief Executive Officer of a federally chartered national bank, I've gained tremendous insight in understanding the technical and practical aspects of managing a regulated financial institution in private industry.

My executive and leadership skills were constantly tested as my management team and I turned an undercapitalized and failing bank into a highly profitable going concern within a three year duration.

Therefore, by having years of practical experience and knowledge of the financial services industry, proven executive skills and academic background, I am well qualified to serve as President of GNMA.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

Currently I own a 5% interest in Miami Capital Facilities Ltd. which has responded to a Request for Proposals from the City of Miami to construct the Miami Federal Law Enforcement Building. The City of Miami will own this building and upon completion of construction, will lease this facility to the GSA. Our business relationship is with the City of Miami only and not with the U.S. Government.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Liquidate interest in Miami Capital Facilities, Ltd. if awarded by the City of Miami the construction contract for Miami Federal Law Enforcement Building.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

In 1986, Board Members of Peoples National Bank of Commerce were individually fined civil monetary penalties for non-compliance with a cease and desist order entered into with the U.S. Comptroller of the Currency. As a new member of the Board of the Bank I was fined $1,500. This matter was later resolved. The Bank was recapitalized thereby allowing the cease and desist order to be withdrawn by the Comptroller of the Currency.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

UNITED STATES SENATE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Room 5300 Dirksen Bldg Washington, D.C. 20510

Telephone 202/224-7391

STATEMENT
FOR COMPLETION BY
PRESIDENTIAL NOMINEES

Procedures formally adopted by the U.S. Senate Committee on Banking, Housing, and Urban Affairs January 25, 1979, establish a uniform questionnaire for all Presidential nominees whose confirmation hearings come before this Committee.

In addition, the procedures establish that:

(1) A confirmation hearing shall normally be held at least five days after receipt of the completed questionnaire by the Committee unless waived by a majority vote of the Committee.

(2) The Committee shall vote on the confirmation not less than 24 hours after the Committee has received transcripts of the hearing unless waived by unanimous consent.

(3) All nominees routinely shall testify under oath at their conformation hearings.

This questionnaire shall be made a part of the public record except for financial information, which shall be kept confidential.

Nominees are requested to answer all questions, and to add additional pages where necessary.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name (Last) (First) (Middle): Lochner, Philip Raymond, Jr.

Position to which nominated: Commissioner, Securities and Exchange Commission

Date of nomination: January , 1990

Date of birth (Day)(Month)(Year): 3 March 1943

Place of birth: New Rochelle, New York

Marital status: Married

Full name of spouse: Sally Soth Lochner

Name and ages of children: Lauren Soth Lochner 11
John Philip Lochner 10

Education:*

Institution	Dates Attended	Degrees Received	Dates of Degrees
Stanford University	9/68-6/71	PhD	6/71
University of London	9/67-6/68	None	
Yale Law School	9/64-6/67	LLB	6/67
Yale College	9/60-6/64	BA	6/64

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Magna Cum Laude	Yale College	1964
Phi Beta Kappa	Yale College	1964
Order of Coif	Yale Law School	1967
Board of Editors Yale Law Journal	Yale Law School	1965-67
Scholarships	Stanford University	1969-1971
Fulbright Fellow	University of London	1967-68

* College level and above

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.*

Organization	Office Held	Dates
American Bar Association	-	5/72-Present
American Bar Foundation	-	2/84-Present
Association of Bar of City of New York	-	2/79-Present
New York State Bar Assoc.	Various, including Chairman, Corporate Counsel Section, 1989	1/72-Present
Henry Street Settlement	Director	3/88-Present
National Council of LaRaza	Member, Corporate Advisory Council	1/88-Present
American Television & Communications Corp.	Director	5/89-Present
Time Warner Inc.	Officer	10/86-Present
Yale University, Class of 1964	Class Council	1980-Present
Manursing Island Club	-	5/79-Present
University Club	-	Unknown-12/87
Greenwich Skating Club	-	9/87-Present
Hemisphere Club	-	7/84-1/88

* Last 15 years. Also, registered Republican during this period.

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Position	Employer	Address	Dates
Senior V.P., Deputy General Counsel and Assistant Secretary	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	1/90-Present
V.P., Secretary & General Counsel	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	9/88-9/1
Vice President	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	10/86-9/88
Sr. Vice President, General Counsel, Video	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	5/84-10/86
Corporate Associate General Counsel	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	11/80-4/84
Associate General Counsel	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	1/80-11/80
Assistant General Counsel	Time Warner Inc.	1271 Avenue of the Americas New York, NY 10020	9/78-1/80
Associate	Cravath, Swaine & Moore	825 Eighth Avenue New York, NY 10019	9/73-9/78
Associate Dean, Assistant Professor	State University of New York Law School	3435 Main Street Buffalo, NY 14214	9/71-9/73
Various Part Time	Stanford University	Stanford, CA 94305	9/68-6/71
Associate	Cravath, Swaine & Moore	825 Eighth Ave. New York, NY 10019	6/67-9/68

Associate	Davis Polk & Wardwell	One Chase Manhattan Plaza New York, NY 10005	6/66-9/66
Various Part Time	Yale University	New Haven, CT 06520	9/64-6/67
Teacher	St. George's School	388 Purgatory Middletown, R.I. 02840	6/65-9/65

Government experience: List any experience in or direct association with Federal, State, or local government, including any advisory, consultative, honorary or other part-time service or positions.

Researcher, Summer Intern, for Rep. Abner W. Sibal, R. Ct., U.S. House of Representatives, Washington, D.C. 6/63-9/63

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Tile	Publisher	Date
"Legal Opinions on Corporate Matters" in Drafting Legal Opinion Letters M. John Sterba, Jr., Editor	John Wiley & Sons, Inc.	1988
"Proxy Statements and Proxies under The Securities Exchange Act of 1934" in Securities Filings, Review and Update	Practising Law Institute	1980-1989
"Form S-8: Registered Offerings Under Employee Benefit Plans" with Susan A. Waxenberg, in Securities Filings, Rewview and Update	Practising Law Institute	1988-1989
"Comment on Chayes & Chayes" 37 Stan. L.R. 305 (1985)	Stanford Law Review	1985
"The No Fee and Low Fee Legal Practice of Private Attorneys" 9 Law & Society Review 431 (1975)	Law & Society Review	1975
"Some Limits on the Application of Social Science Research in the Legal Process" 1973 Law & The Social Order 815 (1974)	Law & The Social Order	1974
"Developments in Law and Social Science Research - Evaluation, Dissemination & Application of Law & Social Sciences Research" 52 N.C.L. Rev. 1033 (1974)	North Carolina Law Review	1974

"Congressional Supervision of Interstate Compacts" 75 Yale L. J. 1416 (1966)	Yale Law Journal	1966
"Small Business Before the Federal Trade Commission", 75 Yale L.J. 487 (1966)	Yale Law Journal	1966

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Volunteer, George Bush for President, 1988
Volunteer, Ronald Reagan for President, 1984

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None.

Qualifications: State fully your qualifications to serve in the position to which you have been named.

Please see Attachment A.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

   Please see Attachment B.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firms, association or organization.

   After completing government service I expect to return to private sector employment which could include employment with Time Warner Inc., though I have no offer of employment by Time Warner Inc. for such employment, nor have I committed myself to return to employment with Time Warner Inc.

3. Has anybody made you a commitment to a job after you leave government?

   No.

4. Do you expect to serve the full term for which you have been appointed?

   Yes.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

   Please see Attachment B.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

   Please see Attachment B.

3. Describe any business relationship, dealing or financial transaction (other than taxpaying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

   My employer, Time Warner Inc., routinely sells products and services to the Federal Government. Such sales are not material to Time Warner Inc.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration & execution of national law or public policy.

   None.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

   Please see Attachment B.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

   To the best of my knowledge, none, other than in connection with current nomination.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

   To the best of my knowledge, none.

ATTACHMENT A

For more than 16 years I have been engaged in the practice of law and have principally engaged in the practice in relation to securities law. I practiced law with a major New York City corporate law firm for five years where I worked on securities law matters in such areas as public offerings of debt and equity (as both issuers' and underwriters' counsel), private placements (as both issuers' and investors' counsel), mergers and acquisitions, and securities exchange and broker dealer regulation. For over 11 years, I have been engaged in the practice of law at Time Warner Inc. (formerly, Time Incorporated) where I have worked on securities law matters in such areas as public offerings, private placements, mergers and acquisitions, securities exchanges and the like.

My law practice has included work on transactions involving countries in Europe and Asia. In addition, I have lectured securities law issues in the United States and have written about securities law matters.

I was educated at Yale College, Yale Law School, Stanford University and the University of London. I am admitted to practice law in the State of New York. I am a member of several bar associations.

ATTACHMENT B

I intend to sever all ties with Time Warner Inc. prior to taking the oath of office as a Commissioner, except that I will retain my interests in the Time employees' pension plan, the Time employees' stock ownership plan, and the Time employees' savings plan. My interest in these plans is fully vested. I may continue coverage under the Time employees' medical and insurance plans upon payment of the applicable premium. The pension plan and the savings plan are independently managed and widely diviersified. My interest in the Time Warner Inc. executive long-term incentive plans (which includes participation in stock option and restricted stock plans) will be terminated consistent with Time Warner Inc.'s standard corporate practice prior to my taking the oath of office as Commissioner.

I intend to recuse myself from any matter involving Time Warner Inc., as well as any matter with which I have had any connection or of which I gained significant knowledge while I was with Time Warner Inc. I also intend to recuse myself from any matter which may reasonably be expected to have a significant impact upon Time Warner Inc., irrespective of whether Time Warner Inc. is a party to the matter. Since I intend to retain my interest in the Time employees' savings plan managed by Fidelity Investments, and the Time employees' pension plan managed by J. P. Morgan, Western Asset Management, and Chancellor Trust Company, I will recuse myself from matters involving these managers, and any other entity which may in the future act as manager for either plan.

I am a director of the American Television and Communications Corporation, a cable television company. I certify that I will resign from this position prior to taking my oath of office as Commissioner. I have resigned as Chairman of the Corporation Counsel Section of the New York State Bar Association, and certify that I will resign from the Executive Committee of that section prior to taking my oath of office as Commissioner.

I understand that, as required by 18 U.S.C. 208, I must recuse myself from any matters which involve or may substantially affect a financial interest of my spouse, my dependent children, or myself, or I must obtain a written waiver of such disqualification under 18 U.S.C. 208(b)(1). This includes any financial interest we have or may hereinafter acquire due to ownership of securities. See Exhibit X.

In addition, I intend to recuse myself, on a case-by-case basis, with respect to any matter where, in order to avoid the possible appearance of impropriety, it appears desirable to me to disqualify myself, despite the lack of any actual conflict of interest.

Notwithstanding all of the foregoing, however, in general it is not my intention to recuse myself from general policy considerations, rule-making proceedings, or legislation.

EXHIBIT X

Time Warner Inc.
Temple Inland Inc.
IBM
General Motors
Manufacturers Hanover Corp.
City of New York
Barnett Bank of Central Florida (mortgage)
Union Trust Company (mortgage)
Putnam Trust Co. (savings and checking accounts)
Dreyfus Tax Exempt Money Market Fund
First County Bank (savings accounts)
Fidelity Investments (manager, Time Employees' Savings Plan)
J.P. Morgan (manager, Time Employees' Pension Plan)
Western Asset Management (manager, Time Employees' Pension Plan)
Chancellor Trust Company (manager, Time Employees' Pension Plan)
Winthrop Interim Properties I
Chemical Bank (checking account)
Dreyfus Liquid Assets (IRAs)
Pru Bache Certificates of Accrual (IRAs)
Dreyfus Liquid Assets (IRA)

Signed: Phyllis R Lodey Date: Feb 6, 1990

The undersigned certifies that the information contained herein is true and correct.

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Adair (LAST) John (FIRST) (OTHER)

Position to which nominated: Inspector General at RTC Date of nomination: 2-9-90

Date of birth: 7-25-41 (DAY) (MONTH) (YEAR) Place of birth: McKees Rocks, PA

Marital status: Married Full name of spouse: Kathleen M. Adair

Name and ages of children: Karen 24 Kelly 21 Kathleen 20
John 17 Kristine 14

Education:

Institution	Dates attended	Degrees received	Dates of degrees
Duquesne University	9/59 to 6/63	BS	6/63
George Washington Univ.	9/66 to 5/69	MBA	5/69
Industrial College of the Armed Forces	8/81 to 6/82		

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Fellowship in Congressional Operations - 1972/73

GAO Career Development Award

GAO Meritorius Service Award

GAO Distinguished Service Award

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
Orange Hunt PTA	Treasurer	1971
Orange Hunt Swim Club	Treasurer	1980/81
American Institute of CPAs		1969 to present
Association of Government Accountants		1969 to present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

Mellon Bank - Court Accountant - Pittsburgh, PA 7/63 to 2/6

GAO - Auditor - Pittsburgh, PA 2/64 to 5/66

GAO - Auditor - Falls Church, VA 5/66 to 1/74

Senator Peter Dominick - Legislative Assistant - Washington, D.C. 1/74 to 12/74

GAO - Auditor - Washington, D.C. 1/75 to Present.

Government experience: List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

25 years with the GAO

1 year as legislative assistant to a U.S.Senator

Published writings: List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Co-author - with Rex Simmons - of article entitled "From Voucher Auditors to Junkyard Dogs" which appeared in the Summer 1988 edition of Public Budgeting and Finance.

Political affiliations and activities: List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

None.

Political contributions: Itemize all political contributions of $500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

None

Qualifications: State fully your qualifications to serve in the position to which you have been named. (attach sheet)

See attached sheet.

Future employment relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.

Yes - but would work occasionally with GAO's Comptroller General on matters of mutual concern.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have no such plans.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

Yes.

Qualifications
of John J. Adair
to be Inspector General
of the
Resolution Trust Corporation

As a member of the senior executive service in the U.S. General Accounting Office (GAO), I presently serve as Director of Audit Oversight and Policy in GAO's Accounting and Financial Management Division.

As Director of Audit Oversight and Policy, I have been involved in the creation of virtually all of the statutory inspector general offices. My group has reviewed the quality of work and impact of a number of inspector general offices and of CPA firms involved in auditing government programs and operations. I have supervised as many as 150 people in the audit oversight area.

My duties have included preparing reports and presenting testimony before House and Senate committees regarding fraud, waste and abuse, inspector general operations, and hotline operations throughout the federal government. I also oversaw GAO's fraud prevention work and was in charge of GAO's fraud hotline for several years.

I have served as a government representative on committees of the American Institute of Certified Public Accountants and spoken at conferences and conventions across the country on audit quality and other issues.

GAO has presented me with numerous awards and honors including a Fellowship in Congressional Operations during 1972-73, the Career Development Award, the Meritorious Service Award, the Distinguished Service Award, as well as bonus and other cash awards. I also was selected to attend the National Defense University's Industrial College of the Armed Forces in 1981-82.

Having a masters degree in accounting, and being a certified public accountant will be important assets for me in overseeing reviews of the financial operations of the Resolution Trust Corporation. In addition, spending most of the past 12 years in the audit oversight area has given me an insight into the workings of federal inspector general offices that will be valuable in establishing an office of inspector general at the Resolution Trust Corporation.

Potential conflicts of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

None.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None.

4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

None.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Not Applicable.

Civil, criminal and investigatory actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

No criminal proceedings, inquiries or investigations.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None.

QUESTION OF CHAIRMAN RIEGLE AND ANSWER OF PHILIP R. LOCHNER, JR.
SUBMITTED FOR THE RECORD

Q.1 One of the more important issues that will face the SEC over the next few years is the extent to which shareholders, as the owners of a corporation, should be permitted to vote on management decisions. I would like to get your views on this issue.

This matter is particularly relevant in light of the Time-Warner situation in which you played a role. My understanding of the circumstances is that Time and Warner decided to merge and were in the process of completing this transaction when Paramount offered $200 per share for Time Inc. stock -- an amount far in excess of what shareholders would have immediately realized in the proposed Time/Warner transaction. In your capacity as general counsel for Time Inc., you stated that Delaware law did not require the Time board to offer shareholders the opportunity to accept this bid. Eventually, the Time-Warner transaction was completed, although the structure was substantially changed, and shareholders were never given the opportunity to vote on the Paramount bid.

Assuming that the Time board was within its rights under Delaware law and that Paramount was a serious bidder that could have obtained financing, do you believe, as a policy matter, the Time shareholders should have been given the opportunity to vote on the Paramount offer? If not, why not?

A.1: As you know, I acted as legal counsel to Time Inc. in its negotiations with Warner Communications for a merger, during the Paramount Communications tender offer, and during the Time Inc. tender offer for and acquisition of Warner Communications. In that capacity, I was asked for and gave confidential legal advice. Litigation is still pending concerning these transactions and I am concerned that for me to comment on these transactions and the legal advice given would constitute a breach of the Cannons of Ethics. However, as a general matter, I would note that the securities laws have developed a sophisticated regulatory structure for dealing with tender offers. This structure is designed to insure the protection of investors by providing them with information relating to their decision to tender their securities, and to ensure fairness in the contest for control. I would be reluctant to superimpose at the federal level the requirements of the proxy rules which would be likely to lead to greater regulatory delays in tender offers and duplicative disclosure.

QUESTIONS FROM SENATOR DODD AND ANSWERS OF PHILIP R. LOCHNER, JR.
SUBMITTED FOR THE RECORD

Q.1: As we look to the problems confronting financial regulators over the next decade, a major concern is the problem of regulatory "Balkanization," as Judge Sporkin described in a recent speech. While we have the concept of a financial supermarket, with a myriad of financial products offered by one institution, we have a handful of different bank and thrift regulators, the SEC, the CFTC, the Justice Department, and various State regulators.

Not only does this pose a regulatory and enforcement problem, but it also poses enormous competitive problems for our financial institutions. As they move into the global arena, going head-to-head with institutions from other financial centers where the regulators essentially speak with one voice, American institutions have to deal with a myriad of financial regulators on the home front.

We've known that this is a growing problem for years, but how do we resolve it? Every agency in this town is worried about its own independence. How would you address it?

A.1: I agree that the division of regulatory responsibility in this country is one of the most important issues that we face today. We have traditionally taken comfort in a decentralized regulatory system. Such a system can allow regulators to specialize in particular areas, and may enhance the quality of their regulation. Nevertheless, the current division of authority imposes certain costs upon the American financial markets. As demonstrated in Chicago Mercantile Exchange v. Securities and Exchange Commission, 883 F.2d 537 (7th Cir. 1989), this division of regulatory authority encourages litigation over which agency has jurisdiction over a new financial product. In that decision the court set aside SEC orders that had approved the trading of a new product, index participations. The court interpreted the exclusivity clause of the Commodity Exchange Act to authorize the trading of those products only on a futures exchange, subject to the regulation of the Commodity Futures Trading Commission. None of the futures markets have expressed any interest in trading these products. Thus, as a consequence of the Seventh Circuit's decision, index participations may be traded only in foreign markets, such as London and Toronto. The division of regulatory authority thus can stifle the introduction of innovative financial products in the American markets.

This regulatory decentralization also complicates our ability to enforce the law in certain cases. For example, the current regulatory scheme can impair our ability to

prevent inter-market manipulation of futures and securities. Rather than permitting one agency to analyze the inter-market effects of related transactions, the current regulatory system charges two agencies with separate responsibilities to monitor related markets and transactions. This system thus can needlessly hamper our enforcement efforts.

The division of regulatory authority over banks and other financial institutions also causes significant problems. As you know, Sections 3(a)(2) and 3(a)(5) of the Securities Act of 1933 exempt securities issued by banks and thrifts from the Act's disclosure requirements. Section 12(i) of the Securities Exchange Act of 1934 authorizes the banking agencies to administer and enforce the securities periodic reporting requirements with respect to these institutions. Because four different agencies establish these standards separately from the rules of the Commission, the information disclosed to investors concerning securities issued by these institutions may not be directly comparable or complete.

Similarly, Sections 3(a)(4) and 3(a)(5) of the Exchange Act currently exempt banks (but not thrifts) from the broker-dealer registration and regulatory requirements that would otherwise apply to their underwriting, brokerage, and other securities activities. These exemptions also leave a serious gap in the system which Congress has enacted for the protection of securities investors. For example, banks are not subject to securities self-regulatory organization rules that require broker-dealers to use an independent underwriter in an underwriting of their own or their affiliates' securities. Nor are they subject to self-regulatory rules concerning the suitability of securities for particular customers.

These important issues take on even greater significance when viewed in the context of our international markets. Foreign investors and market participants, many of whom are from countries in which regulatory authority is more centralized, may be justifiably confused by the American regulatory system.

Some of these issues may be addressed by improved coordination among the state and federal agencies that regulate the financial markets. Other problems, such as those caused by Section 12(i) of the Exchange Act, require a legislative solution. Consideration of the specific measures necessary to address these jurisdictional issues should be one of our highest priorities.

Q.2: A witness on our second panel, Stanley Sporkin, gave a speech last November in which he set forth what I believe is the quintessential conflict confronting those of us who have responsibility for writing laws and regulations concerning the markets. Let me read some of what he said:

> "Regulations must have a purpose that is compatible with the great economic system we enjoy." We must have "a system with the fewest impediments and restrictions on capital formation and commerce." But he adds a caveat: ". . . Under no circumstances can we allow the great freedom of our system to work in a way that produces extreme excesses that in the long run will defeat the very system we want to flourish."

I posed essentially that dilemma to Secretary Brady when he testified here last October. We obviously want to encourage innovation, and even risk taking, in our economy. But, where do we draw the line? Let's look at just two issues confronting us today: (1) the trading of stock index futures -- with very low margins -- and the impact that may have on the securities markets; and (2) the high level of LBO activity and related underwriting of junk bonds. I think you would agree that both of these areas pose substantial risks. But at what point do we step in with the "heavy hand of regulation?" How do you set policy for the Commission in these and other areas? What is the framework this Subcommittee should use in deciding those questions?

A.2: The two examples you pose are apt illustrations of the difficulties that are present in determinations concerning the appropriate degree of regulation necessary for efficient and healthy markets. With regard to stock index futures, studies conducted after the October 1987 market break have concluded that the stock, options, and stock index futures markets are one linked market. Nevertheless, regulatory authority over margins is dispersed among several regulators. This fact makes regulatory decision-making more difficult, and produces margins that do not necessarily reflect the inter-relatedness of those markets. Although I am not prepared to suggest specific margin levels for various products, I do support the need for coordinated regulation.

LBO activity also presents many complex issues and affects many corporate constituencies, often in a conflicting manner. Of course with the benefit of hindsight, it may be concluded that a particular transaction was not wise. The difficulty lies in making that type of assessment in advance

and determining who should make that assessment, the government or the market. Similarly, restrictions on financing techniques such as junk bonds present many difficult questions. I would proceed cautiously before substituting a type of merit regulation for the traditional full disclosure approach of the federal securities laws. One example may be investment activities by financial institutions that handle other people's money or are insured by the federal government; these institutions may properly be subjected to a higher level of regulation than the activities of other market participants.

In general, I do not believe that it is posssible to posit in advance hard and fast rules to use in determining whether a particular regulation is beneficial. Rather, it is necessary in each case to study the issues carefully, collect information, consult relevant experts and then reach a judgment that balances the needs of market participants for sufficient freedom to encourage innovation against investor protection. In addition, we must constantly review existing regulations to determine that they are still performing a useful purpose. In making such judgments, the fundamental principles of full disclosure and the prevention of fraud must be of paramount concern.

QUESTION OF SENATOR HEINZ AND ANSWER OF PHILIP R. LOCHNER, JR., SUBMITTED FOR THE RECORD

Q.1: The SEC has proposed legislation entitled "The Securities Law Enforcement Remedies Act." It was introduced by Senator Dodd and I at the request of the Commission as S. 647.

With some recent modifications suggested by the SEC, the bill would permit the SEC to seek a court order to prohibit a person who committed securities fraud from serving as an officer or director of a public company.

Do you support the use of this authority to permanently bar a person who committed securities fraud from serving as a corporate officer or director?

The bill does not limit the sanction of a permanent bar to repeat offenders of the antifraud provisions of the federal securities laws. Should this remedy be limited to repeat offenders? If not, why not?

Under what circumstances would a permanent bar be appropriate for a first time violator of the federal securities laws?

A.1: I support the Commission proposal to clarify the authority of the courts to enter an order prohibiting persons who have violated Securities Act Section 17(a)(1), Securities Exchange Act Section 10(b), and the rules thereunder from serving as officers and directors of reporting companies. While this sanction is particularly appropriate in the case of repeat violators, I do not believe that it should be limited to recidivists. Because the proposal as modified is limited to antifraud violations and requires a federal judge to determine that a bar is appropriate, I believe that there are sufficient safeguards against the imposition of the sanction where it would not be warranted.

In determining whether to seek a bar against a first time violator, I would consider, among other factors, whether the egregiousness of the violation, the degree of willfulness and knowledge of the violator, and the harm (or risk of harm) to investors were sufficiently great that the protection of investors required that the violator not have an opportunity to commit similar violations as a corporate officer or director in the future.

QUESTIONS FOR JOHN J. ADAIR, FROM SENATOR RIEGLE

QUESTIONS AND ANSWERS

Q.1. The Inspector General Act also says an Inspector General should keep Congress "fully and currently informed about problems and deficiencies ... and the necessity for and progress of corrective action."

a. Please describe the measures you plan to implement to fulfill this statutory mandate to keep Congress fully and currently informed.

b. Can you assure this Committee that the Office of the Inspector General, under your administration, will be forthcoming in response to Congressional inquires and concerns?

A.1a. I plan to implement the statutory mandate to keep the Congress fully and currently informed in four way: (1) semiannual reports, (2) individual IG reports on specific topics, (3) testimony before congressional committees, and (4) meetings and telephone conversations, as required, with members of the Congress.

A.1b. Yes. The concerns and inquiries of the Congress will receive expeditious attention from the Office of Inspector General under my administration.

Q.2. Please describe the measures you plan to implement to ensure that the Inspector General's office at RTC is independent and effective.

A.2. The Inspector General Act of 1978, as amended, provides a great deal of independence to each presidentially appointed inspector general. For example, the Act provides that only the President can remove the inspector general from office. It also states that each Inspector General shall report to and be under the general supervision of the head of the establishment involved or, to the extent such authority is delegated, the officer next in rank below such head, but shall not report to, or be subject to supervision by, any other officer of such establishment. Neither the head of the establishment nor the officer next in rank below such head shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation, or from issuing any subpena during the course of any audit or investigation. In addition the Act gives the inspector general the authority to select and appoint people to the Office of Inspector

General. These provisions will help to ensure organizational independence.

I intend to make the Office of the Inspector General effective by bringing highly qualified individuals into that Office and directing their efforts towards the most important aspects of RTC's operations. All programs under the direction of the RTC will be reviewed by my office and the results of those reviews will be set forth in reports stating the beliefs of my Office as to the effectiveness of those programs. It is my intention that my reports will provide unbiased and objective criticisms wherever problems are found within the RTC. We will also make whatever recommendations are appropriate, and we will followup to ensure that corrective actions promised by management on those recommendations are actually implemented.

Q.3. What will be your highest audit and investigation priorities upon taking office, if you are confirmed?

A.3. Upon taking office, I will determine the extent and nature of all programs and operations under RTC's control and will develop a prioritized listing of areas and matters requiring audit and investigative attention. Based on my limited discussions with RTC, Oversight Board and congressional officials, I have indications that there may be problems in such areas as the structure under which RTC operates, the pace at which thrifts are being resolved, the management of the assets in the hands of the RTC, the extent of the need for additional working capital, and the systems that are in place, or are needed, for RTC to carry out its mission.

Q.4. One of the most important provisions of FIRREA is the note cap that limits RTC's ability to borrow funds. As Inspector General, will you monitor the RTC's compliance with the note cap, and report your results in writing to the Committee on a quarterly basis?

A.4. Yes. It is my intention to monitor RTC's compliance with the note cap. I see no problem with providing quarterly reports on the results of that monitoring to the Committee.

Q.5. FIRREA requires the RTC to fully document its transactions and make all assistance agreements available to Congress. What measures do you plan to implement to ensure that the RTC complies with these requirements?

A.5. As part of its operations, my Office will be conducting reviews to determine whether the RTC is fully documenting its transactions and is making assistance agreements available to the Congress.

Q.6. FIRREA requires a fair and open bidding process. What procedures will you employ to monitor both sales of thrift franchises and sales of real property so that no special deals are made?

A.6. We will be especially mindful of the need for a fair and open bidding process. The Office of Inspector General will conduct reviews of sales of thrift franchises and sales of real property. One of the purposes of those reviews will be to ensure that no improper special deals have been made. Any indications of this will be promptly reported.

Q.7. The Oversight Board of the RTC is composed of the heads of other governmental entities and has used staff from those agencies for some of its work. Will you inform this Committee promptly if either HUD, Treasury, or the Federal Reserve is unwilling to cooperate in any investigation you undertake?

A.7. Yes. I do not anticipate that HUD, Treasury, or the Federal Reserve will be unwilling to cooperate in any investigation undertaken by the Office of Inspector General. However, if this should occur, I would notify the RTC Board, the Oversight Board, and the Congress promptly.